AT&T

Bringing People Together

1993 Annual Report

Anytime

Anywhere

AT&T is the world's networking leader, providing communications services and products, as well as network equipment and computer systems, to businesses, consumers, telecommunications services providers and government agencies. Our Worldwide Intelligent Network carries more than 150 million voice, data, video and facsimile messages every business day. AT&T Bell Laboratories engages in basic research as well as product and service development. AT&T also offers a general-purpose credit card and financial and leasing services. AT&T does business in some 200 countries.

1993 HIGHLIGHTS

- Total revenues were a record. The main contributors to revenue growth were increased product and system sales outside the U.S. and the continuing growth of our financial services businesses.
- New accounting rules affecting all U.S. companies changed the way we book expenses for retiree benefits, separation payments and income taxes. Excluding these accounting changes, our net income and earnings per share were new highs.
- These accounting changes did not affect our cash flow. We used the cash from operations to pay dividends and to invest in R&D, network improvements and other areas important to our future growth.

Dollars in millions (except per share amounts)	1993	1992	Percent Change
Revenues			
Telecommunications Services	**$ 39,863**	$ 39,580	0.7%
Products and Systems	**17,798**	16,473	8.0
Rentals and Other Services	**6,991**	6,957	0.5
Financial Services and Leasing	**2,504**	1,894	32.2
Total Revenues	**$ 67,156**	$ 64,904	3.5%
Income			
Operating Income	**$ 6,238**	$ 6,269	(0.5)%
Income before Accounting Changes	**3,974**	3,807	4.4
Accounting Changes	**(7,768)**	—	—
Net Income (Loss)	**(3,794)**	3,807	(199.7)
Per Common Share			
Income before Accounting Changes	**$ 2.94**	$ 2.86	2.8%
Accounting Changes	**(5.74)**	—	—
Net Income (Loss)	**(2.80)**	2.86	(198.1)
Dividends Declared	**1.32**	1.32	—
Stock Price at Year-End	**52.50**	51.00	2.9
Other Information			
Cash Provided by Operations	**$ 7,129**	$ 7,874	(9.5)%
Cash Used for Investing Activities	**8,339**	8,192	1.8
Total Assets at Year-End	**60,766**	57,188	6.3
Total Employees at Year-End	**308,700**	312,700	(1.3)

AT&T 1993 ANNUAL REPORT

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The AT&T of today is far different from the AT&T that divested its local telephone companies 10 years ago. Since then we've focused on our strengths, honed our strategies, seized opportunities, trimmed costs and resized our operations. We've transformed ourselves into a formidable competitor at the heart of a dynamic global industry.

In part reflecting this evolution, we plan to change the company's formal name from American Telephone and Telegraph Company to AT&T Corp., subject to shareowner approval at our 1994 annual meeting. AT&T has become one of the most readily recognized brand names in the U.S., and it's becoming increasingly well known throughout the world. Our NCR unit, which will now be known as AT&T Global Information Solutions, has also adopted the AT&T brand.

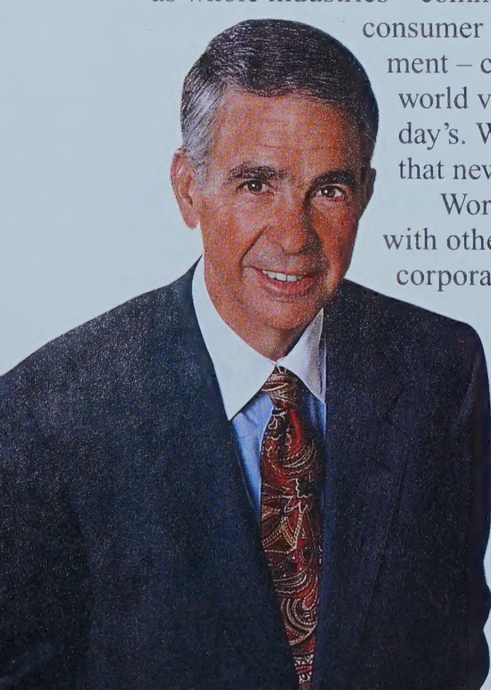
We intend to lead as providers of communications and information systems that make businesses more productive and enhance people's personal lives. Our road map will be the mission and strategies discussed in this annual report.

Dear Shareowner:

It was a year of growth for AT&T. We overcame a disappointing economy and emerged competitively stronger. Revenues increased across our business, both in the United States and in other markets. Our bottom line shows a loss of $2.80 a share, but that includes companywide charges that we took for accounting changes as well as a fourth quarter restructuring charge at one of our units. Without those charges, we earned $3.15 a share, or 10 percent better than 1992's results.

1993 will be remembered as the year when the concept of an Information Superhighway captured everyone's imagination. The good news is that it's more than a concept. Much of the Information Superhighway, in the form of intelligent, high-capacity networks like ours, already exists.

Enormous opportunities for our business beckon as whole industries – communications, computers, consumer electronics, entertainment – converge to create a world very different from today's. We are preparing for that new world.



Working on our own and with others – large established corporations, small Silicon Valley startups, and partners in many countries – we intend to lead as providers of communications and information systems that make businesses more productive and enhance people's personal lives. Our road map will be the mission and strategies discussed in this annual report.

But it is impossible to contemplate the path ahead without pausing to mark an anniversary that says so much about how we got to this point. A decade ago, finally bending to government pressure, Charles Brown, then AT&T's chairman, agreed to divest AT&T of the Bell telephone companies. The theory behind the divestiture that went into effect on January 1, 1984, was to separate AT&T and its competitive businesses from the local telephone service monopoly.

Some argue even today that the divestiture was less than a blessing, but in fact there have been clear customer benefits: more choices and lower long distance prices, for example. And shareowners of the old AT&T, with multiple holdings in the new AT&T and the divested companies, fared well.

As for AT&T, I am convinced that the breakup forced us to make changes in the 1980s that prepared us for the competitive challenges we are confronting in the 1990s.

These past 10 years have been a learning experience

These past 10 years were neither easy nor without mistakes, however.

We were confident at the outset that we knew what customers *needed*. It took time to learn that customer satisfaction is giving customers what they *want*.

After losing some competitive battles, we learned two things: humility and how to compete. And with both lessons came self-confidence.

Our experience in the computer business is worth a case study by itself. Because our long dis-

tance network was so highly computerized, we thought customers would jump at the chance to buy computers from us. We were wrong – and finally we merged with an established computer company, NCR, which was recently renamed AT&T Global Information Solutions.

Cellular telephone technology was invented in our own Bell Laboratories. But we were required to leave the broad commercialization of that invention to others, only to find later how critical wireless communications is to providing anytime, anywhere service. We are now completing a merger with the nation's largest cellular service company, McCaw Cellular Communications.

And so these past 10 years have been a learning experience in many ways.

The best way to compete is to get closer to each customer

We learned that meeting customer needs in a world where companies do business around the globe required us to become a global company. We are investing resources to do that.

We learned that the best way to compete is to get closer to each customer. So we set up distinct business units and regional units outside the United States, making each unit accountable for delighting, not just satisfying, its own customers.

At the same time, emerging multimedia opportunities required that we draw upon resources across our business units. We're doing that, too.

The most disappointing lesson we learned is how reluctant U.S. regulators have been to relinquish their authority. When we signed the divestiture decree, we assumed that before long AT&T would be freed from regulations that bound us when we were still a monopoly. That freedom has been too long coming. Despite the intensity of the competition that characterizes today's long distance business, we continue to be shackled by regulations that advantage our competitors and disadvantage our customers.

Ten years after the divestiture, the former Bell companies are pressing hard to enter long distance and manufacturing, from which they are restricted by the decree. Our position is clear: The time to remove these restrictions is only when these companies are no longer monopolies – when customers can choose from among competing providers of local services as they can for long distance.

Without question, the years since the breakup of the Bell System have been hardest on AT&T's own people. As we adjust to changing technology and competitive market conditions, we have been unable to avoid job reductions. But we resort to layoffs only after applying a full range of measures: retraining, early retirement plans, special leaves of absence and opening up other AT&T jobs through attrition and other means.

There were times in the last decade when some of us felt that AT&T's capacity to play a vital role in people's lives had been dismantled along with the institution known as the Bell System. As the information revolution has unfolded on a global scale, however, we have become convinced that we will write another memorable chapter in the history of this great enterprise.

We have a new mission and what we believe is a winning strategy

We are armed with a new mission and what we believe is a winning strategy – knowing, however, that we must be flexible and attentive to the ever-changing character of the marketplace. On the back cover of this report we show a powerful link between the AT&T of 1984 and 1994. We have always said that the character of the AT&T company is expressed in its values and the everyday actions of each of its people. Today, "Our Common Bond" holds us to high standards: respecting the diverse talents each individual contributes to AT&T's progress; serving our customers better each time than the time before; integrity in all we do. It calls on us to embrace constant innovation to fuel our growth. It commits us to team with each other and to be caring partners in the communities where we live and work.

In these values, we preserve the best of our past and define the framework for our future success.

Robert E. Allen
Chairman
February 9, 1994

Mission Statement

We are dedicated to being the world's best at bringing people together–giving them easy access to each other and to the information and services they want and need –anytime, anywhere.

Our Strategy

Put briefly, our strategy is to build on our position as the world's networking leader.

Our main strength is our ability to build and manage networks. The AT&T network is the world's most advanced and reliable one. It is the core of our business. The more our network is used, the more we earn.

But our network does not stand alone. It is enhanced with what we uniquely offer: a business that combines communications, computing, and network products and systems.

We seek continuously to improve our own network and those of other service providers around the world in order to make communications more useful to customers. This, in turn, increases network use.

And, as our customers' information needs have become more complex, we are providing integrated, end-to-end network solutions.

How do your business units operate?

Each is responsible for its own markets, focusing on its customers and competitors and developing the right products or services. Each is expected to be profitable in its own right and to contribute to the profitable growth of our network.

All units are expected to support the corporate goal of at least 10 percent earnings growth each year. To do this, they focus on value-added products and services that offer potential for high margins.

In addition, to meet customer needs, we coordinate resources across business unit lines. Providing multimedia solutions and giving customers visual and mobile capabilities are examples where cross-business unit activities come into play.

What are your international plans?

Our goal is to dramatically increase that portion of our revenues coming from international activities. We expect a surge of growth as many countries seek to modernize their telephone systems. International phone calls, AT&T Global Information Solutions and Network Systems represent our largest revenue producers outside the U.S., but virtually all our units have growth plans abroad.

In meeting service needs of multinational companies around the world, we prefer to partner with local telecommunications operators. When that's not possible, we'll take alternative steps to meet our customers' needs.

What are the growth projections for AT&T's markets?

The market opportunity is substantial. The information industry worldwide currently generates about $900 billion in annual revenues and is expected to grow to $1.4 trillion by

1996. We are aiming at some of the fastest-growing segments, and they are ones that link all of our businesses.

What are these fast-growing segments?

We're focusing on five key marketing and technology areas:

Networked computing is the integration of computers, applications, databases and data networks to provide solutions to our customers. Our networking and R&D resources, combined with computing expertise, give us a major advantage. This is a $120 billion market now and should hit $200 billion by 1996.

Wireless communications, including cellular service, wireless office systems and phones, paging, digital radio and network equipment, is exploding. McCaw Cellular is a natural extension of our wired long distance business. The number of cellular service customers is growing between 30 and 40 percent a year.

Messaging encompasses the recording, digitizing, storing, converting and relaying of information. Faxes and electronic mail are the best known examples. This market is expected to more than double to $18 billion by 1996.

Visual communications, another market growing at 40 percent a year, includes such products as our own videophone, videoconferencing, and video storage and retrieval systems for cable TV or phone companies to provide movies on demand. Market potential: $2.5 billion by 1996.

Voice and audio processing involves people talking to machines that understand and respond to human language. We foresee continuous speech recognition and instant language translation before the year 2000. It's a $2 billion market today; $5.5 billion in a few years.

How does AT&T fit into the mergers among U.S. telephone, cable and entertainment companies?

We see these mergers as major opportunities to increase sales of our network switching, transmission and other specialized equipment and services to telephone and cable companies. Building the information highway supports our networking strategy – to create opportunities to carry more traffic on our network.

What is AT&T's acquisition policy?

We make an acquisition when that seems the most effective way to take advantage of a particular market opportunity to further our growth goals. We look for partnerships – whether equity investments, joint ventures or other alliances – that complement our own strengths.

How do you measure success?

We look at customer and employee satisfaction, our stock price and economic value added (EVA). EVA involves the measurement of economic returns on invested capital to ensure that we are earning more than the cost of capital and, therefore, increasing shareowner wealth.

What aspects of AT&T will contribute most to the success of your strategy?

AT&T is well positioned in one of the outstanding global growth industries. We have the skills and the resources, including financial strength, and one of the most recognized and respected brand names. An important factor in that reputation is AT&T Bell Laboratories. We also have a highly skilled work force that is committed to quality.

We will spell out in the following pages how the year's major developments fit into this strategy. We highlight three dimensions of our company – AT&T people, innovation and globalization – that will propel our strategy in the future.

People

AT&T people, working to delight customers, are key to realizing our goals.

AT&T Language Line Services provides assistance in 140 languages. Shown are Language Line employees in Monterey, California (clockwise from lower left): Tien Nguyen, Israel Dominguez, Cons Agbannawag, Claude Constant, Carlos Nascimento, Carrie Tate, Rachel Mosqueda and Sana Japara.

What kind of company is AT&T? We are defined by our people and the values we share. A respect for individuals. A dedication to helping customers. A commitment to the highest standards of integrity. And a belief in teamwork. We call these values "Our Common Bond," and they guide our behavior.

Blending the experience of veteran AT&T employees with the ideas of new people makes us strong. Because of mergers and hiring, one in five AT&T people has joined us in the last five years.

We value and encourage diversity in our work force. We continue to learn and benefit from it. By making diversity an integral part of the fabric of our business, we will enrich our company and bring about the changes we need to be successful in the global marketplace.

We invest almost $1 billion a year, or $3 million a day, in the continuing education, training and development of our 309,000 people.

Working with our union-represented people, we developed programs that address tough issues such as child and elder care. Some of these programs have become national models. We want AT&T to be a company that people are proud to work for, a company with a sense of responsibility to its people and to the communities where they live and work.

AT&T's business units form four major groups. Each contributes to our position as the world's networking leader.

COMMUNICATIONS SERVICES GROUP — Provides global long distance services for business and residential customers and offers the AT&T Universal Card. Installs and manages AT&T's global networks and customers' private networks. OBJECTIVE: Create new value for customers through use of our worldwide network service offerings.

NETWORK SYSTEMS GROUP — Provides network software, equipment and systems integration for the world's telephone companies, governments, private network operators, cable television operators and wireless service providers. Produces microelectronic and photonic components and power supplies for AT&T and other high-technology firms. OBJECTIVE: Build and enhance networking capability for AT&T and other service providers.

AT&T GLOBAL INFORMATION SOLUTIONS (formerly NCR) — Provides information technology and services required by global customers relying on vast amounts of business information to thrive in competitive environments. OBJECTIVE: Help businesses more efficiently get, move and use information about their customers so they may better serve them.

MULTIMEDIA PRODUCTS AND SERVICES GROUP — Provides products that support the convergence of communications, computing, and information and entertainment for consumers, businesses and government entities around the world. OBJECTIVE: Be the easy-to-use face of the network.

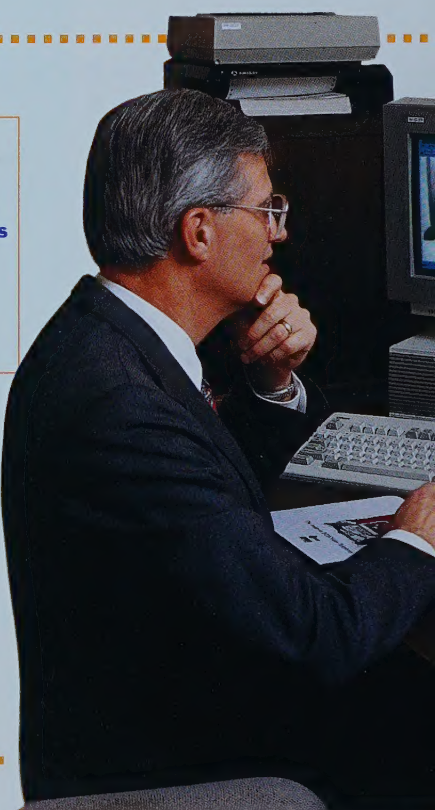
Strategic Review

The following review discusses the key initiatives and events of 1993 and explains how they relate to our strategy.

AT&T forms a global alliance that offers one-stop service for multinationals

AT&T joined with KDD of Japan and Singapore Telecom in 1993 to form the WorldPartners association and provide global companies with a new level of service and convenience. For customers such as Unisys, Goodyear and United Parcel Service, our partnership means one-stop shopping for service ordering, maintenance and billing. Said a Honeywell executive: "We need a single global network, not a patchwork of networks with different standards, inconsistent features and varying standards of performance." WorldPartners, soon to be joined by Australia's long distance company Telstra, Unitel of Canada and Korea Telecom, will deliver this level of service, first in North America and Asia, in Europe in 1994, and then in Latin America.

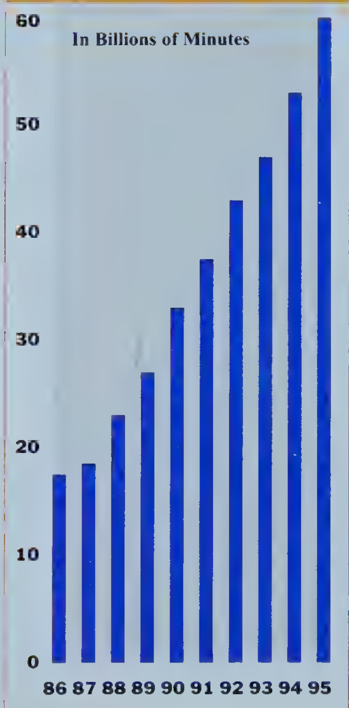
Strategic implication: AT&T and our partners are in a competitive battle with other global carriers for the $10 billion market for private network and other services for globe-spanning companies. This dynamic market is expected to double by the year 2000. We believe our approach of partnering with national carriers and upgrading existing networks is the most cost-effective and speedy way to deliver the hassle-free services that multinational corporations want.



Desktop video conferencing brings people together at Mead Corp. in Dayton, Ohio. Thomas Ireland "meets" with Jeffery Rose via the AT&T Telemedia Personal Video System.

AT&T will install tiny fiber-optic cables as part of a huge network upgrade in California.

The Market for International Calls
Traffic Volume (1986-1995)



Global growth is swelling international telephone calling. From 47.5 billion minutes in 1993, traffic is expected to rise to 60 billion minutes in 1995. Source: TeleGeography, 1993, Washington, D.C.

Picture this: AT&T brings visual communications to the desktop

We introduced products that add a new dimension to business communications. The AT&T Still-Image Phone sends high-quality color still images over regular phone lines. It's been popular in the retail field and with advertising and graphic design firms. A Memphis eye surgeon even used it to consult with colleagues at Duke University while performing delicate retina surgery. The AT&T TeleMedia Personal Video System is a result of collaboration between our microelectronics, information systems and business equipment units. It brings together telephony and computing in a digital telephone and visual system that lets callers see one another in a window on their computer screens while they collaborate on documents.

Strategic implication: These products support our drive to be the global leader in multimedia products and services and expand our network's use and value. Part of this drive is our support of global standards for video compression and transmission. Assured of common standards, customers can invest with confidence, knowing their systems will work with other products.

Patented AT&T TrueVoice® technology boosts the sound quality of calls

"Clearer," "closer sounding," "more true to life," customers said as they heard calls enhanced by AT&T TrueVoice® service. We expect to complete city-by-city installation of this network improvement by April 1994. The AT&T Bell Laboratories innovation boosts the lower, or bass, end of calls' sound spectrum while raising the overall sound level, so callers can hear the nuances of conversation. And it's free to AT&T customers. You can hear the difference yourself by calling 1 800 932-2000.

Strategic implication: One of AT&T's principal strategies is to offer customers the best value. Our competitors don't offer this dramatic improvement in sound quality, which eight out of ten people said was clearly the best. Innovation like this attracts customers, wins their loyalty and encourages calling on our network.

Pacific Bell chooses AT&T for multibillion-dollar network upgrade

In November, Pacific Bell announced that it would invest $16 billion over seven years to bring the information superhighway to some five million homes in California. AT&T Network Systems is the major supplier and systems integrator in what is considered the single largest network equipment purchase ever. The new broadband digital network will carry telephone calls and television, and eventually a host of new interactive services such as entertainment, community information, education and home shopping. Instead of the traditional twisted copper wire of telephony, the new network will use fiber optics and coaxial cable. Under a multibillion-dollar contract, AT&T will supply the entire network, from each central office to the exterior of each subscriber's home or office. We'll also design, engineer, install and help maintain the system.

Strategic implication: The deal is big. In its delivery of leading-edge technology. In new capabilities for customers. In

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China

Nations around the world are building networks. Expanding them. Modernizing them.

Representing the world's largest undeveloped telephone market, this youngster can expect much improved service as an adult, thanks to China's far-reaching agreement with AT&T.

To grow, we have to be a global company. We took a giant step by signing a major agreement with China. China chose AT&T for far-reaching projects involving research, development and manufacturing, network services and management, switching and transmission systems, wireless systems, customer equipment, systems integration and training.

At divestiture 10 years ago, AT&T had fewer than 100 people outside the U.S. Today we have more than 53,000 people working in about 100 other countries.

In China there are only two phones for every 100 people. China wants to increase phone service twentyfold by 2020. That means 15 to 17 million lines must be installed annually over the next 27 years. In helping that country reach its goals, AT&T will become one of China's largest telecommunications suppliers. And the work there could be the most extensive international project in our history.

AT&T Network Systems, maker of telecommunications network equipment, has quadrupled its sales outside the U.S. in the past five years.

China is only one example of the explosion in telecommunications investment taking place in the world. More will be spent in this decade on telecommunications equipment than in all the years since the invention of the phone. Affordable access to information technology is a key to economic growth.

its impact on the cable television and telecommunications industries. Pacific Bell and other local exchange carriers are investing aggressively to add multimedia muscle to their networks. This convergence of telephony and television will create tremendous demand for networking expertise and equipment. And as one analyst noted, "There is no other supplier remotely close to having AT&T's total capabilities encompassing equipment, network design and systems integration."

AT&T expands its global network with new undersea cables

In 1993 we participated in the placement of undersea fiber-optic cables between the U.S. and Europe and between the U.S. and New Zealand. We announced our role in constructing a system connecting three South American countries, a system linking five Pacific Rim countries, and a cable connecting Russia, Japan and Korea. AT&T Submarine Systems Inc. is the world's leading full-service provider of undersea communications systems. The undersea cables we've installed would circle the equator more than five times.

Strategic implication: AT&T is expanding our global network by installing undersea high-capacity fiber-optic cables. They carry more conversations and data transmissions more reliably than ever before. We're the global leader, having invested some $2.2 billion in more than 67 systems worldwide.

New ATM switching technology speeds information superhighway

We began deploying a key enabling technology that will revolutionize the way people communicate and access information and entertainment. Called Asynchronous Transfer Mode, or ATM, it carries and switches packets of digitized voice, data and video signals simultaneously over a single glass fiber at speeds up to billions of bits per second. ATM is the basis of systems developed by AT&T Bell Laboratories and is offered to service providers by AT&T Network Systems. Examples: In Orlando, Time Warner is using our ATM switch in its full-service network to provide movies on demand. And network operators in Sweden, Spain and the United Kingdom chose our ATM technology for a trial of advanced international communications services throughout Europe. AT&T also offered businesses the first commercial Synchronous Optical Network (SONET) service connecting 200 U.S. cities.

Strategic implication: ATM technology is critical to multimedia applications of the future because it can simultaneously handle conversations, data and full-motion video. As the communications and computer industries respond to the U.S. Administration's goal of an information superhighway, ATM will be essential for delivering broadband services to residences and businesses.

AT&T takes steps to better serve ethnically diverse customers

We expanded our ability to provide in-language telephone marketing and customer assistance in the U.S. with centers in San Jose for customers who speak Asian languages, in San Antonio for Hispanic customers and in New York City for customers from Eastern Europe. Bilingual telephone represen-

Our Telstar 401 communications satellite was launched for orbit 22,000 miles above Earth in December. It soon began beaming television programming, such as Monday Night Football, for leading broadcasters and syndicators. We expect to launch Telstar 402 in 1994.

AT&T is the world's leading installer of undersea fiber-optic cable, thanks in large part to our fleet of six state-of-the-art cable ships. Shown here: The CS Global Link, commissioned in 1990 and based in Baltimore.

tatives help customers order new services and answer their questions. In the New York, Los Angeles and San Francisco areas, people can come to our new Global Communications Centers to place calls and to receive personal assistance in the language of their choice. We also made calling to the U.S. easier, more affordable and more reliable with our USA-Direct® in-language service. This service gives callers in 22 countries access to AT&T operators speaking nine languages who can help them complete calls to the U.S. Offered in cooperation with local telephone administrations, the service is especially useful in countries where many residents don't have home phones or where residents prefer to have calls billed in the U.S. Our commitment to serving diverse markets extends to community involvement and to designing service offers with multicultural customers in mind.

Strategic implication: By understanding and appreciating cultural and language differences, we can better serve our diverse customer base. This is especially true of the 7 million U.S. immigrants who prefer to communicate in their native languages. We want to offer them the most value and to be their long distance company of choice.

Multilingual staff members at the AT&T Global Communications Center in Los Angeles help customers whose preferred language is not English.

AT&T partners with a range of interactive multimedia companies

We are advancing interactive multimedia applications through a number of alliances and ventures. In 1994 we'll join Viacom International, GTE Telephone Operations and Pacific Telesis Video Services in three major trials of interactive programming and services. The trials will use AT&T's network, software and technology. We're working with Sega of America on a home networking device that enables people in different locations to simultaneously converse and play video games with one another. In Denver we're partnering with U S West and TeleCommunications, Inc. to test consumer preferences for video delivery technology. AT&T also invested in The Sierra Network (renamed The ImagiNation Network, Inc.), on which users can meet and play interactive games. Soon they may also be able to access video and audio libraries and electronic shopping and news services.

Strategic implication: AT&T's strategy is to enhance our network to handle new applications, thereby increasing the volume of messages it carries. So it is in our interest to encourage rapid development of the multimedia market. To this end, we have partnered with a range of companies that provide services, content and products. As mega-mergers between cable companies and regional telephone companies create giant new companies, we see opportunities in equipping networks, in carrying signals, and in converting content to digital bits, storing it and sending it on request. Our networking expertise can help content providers reach the widest possible audience and help that audience access the information they need easily, when and where they want it.

AT&T Global Information Solutions helps customers...Get it. Move it. Use it

This unit initiated a new strategic direction based on the concept of using information technology to help customers get, move and use information about *their* customers. The goal is to shape and lead the customer information solutions market. A

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Wireless

Our challenge is to find innovative ways to give people what they want: mobility and simplicity.

These days you can find nature-loving telecommuters from the mountains of Colorado to the beaches of Long Island. Their mobility comes from cellular phones, personal communicators and other innovative wireless devices.

There's a sea change under way in telecommunications–as bold as the move from horses to the automobile. Wireless technologies enable true anytime, anywhere communications via voice, data, images and messages. Multimedia adds an extra dimension by engaging several of our senses at once.

The wireless market is blazing. Together, service and equipment is a $40 billion market that is expected to double by 1996.

Wireless communications is central to our networking strategy. That's why we initiated a merger with McCaw Cellular, America's top cellular service provider. Adding the power of AT&T's brand name and its research and development capabilities to McCaw's already strong position will raise the quality of cellular services and speed new capabilities. The all-stock merger will be completed in 1994.

Value-added services such as networked computing, wireless, messaging, visual communications, and voice and audio processing are expected to grow at a rate of 17 percent a year.

Strategic alliances with and investments in other high-tech firms like 3DO Company and General Magic bolster AT&T's position in emerging technologies and developing markets. We want to be a leader in shaping the trends that will influence lifestyles in the 21st Century.

variety of AT&T technologies enable customer information solutions. One is parallel processing, which divides the processing of massive amounts of data into smaller jobs that can be tackled simultaneously by linked microprocessors. Our computer unit has supplied 85 percent of the commercial parallel systems used by the world's largest companies. In November it introduced its fifth generation of parallel-processing hardware and software, which doubles performance and improves reliability. Another enabling technology is messaging, which allows for the exchange of information between individuals or machines in any format or media. Retailers, for example, can better manage inventory by using the Star PRO messaging technology to link their stores, buyers, suppliers and home-office locations.

Strategic implication: AT&T is the only information systems provider that can deliver each of the components of getting, moving and using customer information. The company's supermarket scanners, automated teller machines and notebook computers collect information. Our voice and data networking systems and services move it. And our client/server and massively parallel processing systems turn customer information into knowledge.

Our message to consumers: AT&T wants to be Your True Voice

Late in 1993 our Consumer Communications Services unit introduced a new marketing strategy. Supporting it is an advertising campaign built on the theme "Your True Voice." The strategy and campaign grew out of our understanding of why consumers make long distance calls and our goal to establish an emotional connection with them. The first offering under the "True" banner was our AT&T True Rewards℠ loyalty program. Customers who spend at least $25 per month on long distance service can earn points that are redeemable for frequent-flyer air miles (on Delta, United and US Air) or for free minutes of long distance. Next we introduced AT&T True USA℠ – a savings plan for subscribers who spend at least $10 a month on long distance. It offers across-the-board discounts on all long distance calls in the U.S.

Strategic implication: In the hotly contested market for consumer long distance we zeroed in on what people want: simple and reliable connections at honest and understandable prices. By delivering on what's important to them, we earn customers' trust and create a bond of loyalty. We continue to work hard to show customers that AT&T is their best choice for helpful services, superior quality and competitive prices .

Speech processing creates new service possibilities

AT&T is a leader in developing the technologies underlying speech processing. In 1993 we continued to deploy these technologies in our network services and in products for consumers and businesses. Callers making collect or calling-card calls on the AT&T network now have the option of getting help from an automated speech recognition system, which responds to their spoken command and records their voice. Our Conversant® Voice Information System – which responds

United Airlines and 504 of AT&T's other largest customers chose to keep their 800 numbers with AT&T. This is a 95 percent retention rate.

Taking care of customers is what AT&T Global Information Solutions is all about. This cheering team is celebrating its sale of a massively parallel computer to Caldor, a 150-store retail chain. Our computer business is organizing itself into customer-focused teams. Shown from left: Daniel Klein, Kristin Shevis, Mark Dane, Aji Adeniji, Richard Charucki and Richard Halpern.

to as many as 2,000 words or phrases – can be adapted for customer applications using specialized vocabularies and different international languages. This system allows users to order merchandise, get airline schedules and conduct other transactions by voice commands instead of by pushing phone buttons. Voice recognition technology also is at work in our cellular phones, making possible voice-activated dialing and other conveniences.

Strategic implication: AT&T wants to expand business by making products and services easier to use. For most people, speaking is the most natural – and easiest – way to communicate. Each year AT&T Bell Laboratories scientists improve speech recognition accuracy, increase the vocabulary that our systems understand, and make progress in real-time speech translation. Our goal is to allow almost anyone to converse fluently with a computer over the telephone in order to conduct transactions and to get information.

AT&T successfully retained and won hotly contested 800 service business

New federal rules in 1993 made it possible for customers to keep their 800 numbers if they changed long distance carriers. The rules also gave some large customers the option to cancel their AT&T service contracts. Industry pundits said AT&T might lose 10 to 20 percent of its business. We didn't. We bolstered our competitive position by introducing dozens of new services and features and by offering a Never Miss A Call℠ Guarantee. More than 95 percent of our 531 largest customers (such as Avis, United Air Lines, General Electric and PaineWebber) stayed with us. During 800 "portability," we successfully held market share, increased 800 numbers used by AT&T customers by 15 percent, and experienced double-digit growth in minutes of use on our 800 network. We saved potential annual revenues of more than $2.5 billion and won new business valued at $500 million.

Strategic implication: AT&T again showed it can compete and win. When new rules put 800 customers up for grabs, we held market share by stimulating new 800 service applications. We'll continue to develop innovative new services and offer pricing packages that add up to greater value for our customers.

AT&T Global Information Solutions sharpens its customer focus

This unit has launched an extensive effort to become much more responsive to customers. Instead of sales teams representing various products, there are now 530 customer-focused teams assigned to one or a handful of clients. These customer-focused teams are headed by a team leader and include representatives from a variety of functional areas – all focused on helping the customer reach its business goals and objectives. The team leader and the others on the team have the decision-making authority needed to be responsive to the customer's business issues.

Strategic implication: Because there are fewer layers between them and senior leadership, the customer-focused teams can act with great speed to place more resources right where they need to be – supporting customers.

Executive changes accelerate global thrust

In 1993 we shifted some people and responsibilities on our Management Executive Committee, with an eye to increasing the pace of growth and globalization. Vic Pelson moved from heading our Communications Services Group to become chairman of our Global Operations Team and was elected to our Board. He and Bill Marx, CEO of AT&T Network Systems, now share responsibility for our global initiatives. Alex Mandl became head of the Communications Services Group. Rick Miller, most recently chairman and CEO of Wang Laboratories, succeeded him as CFO. The name of Bob Kavner's group changed to Multimedia Products and Services, a reflection of how technology is changing telecommunications. Jerre Stead, who headed our Global Business Communications Systems unit, became CEO of AT&T Global Information Solutions. We also named a CEO of the Asia/Pacific region and plan to follow suit for Europe/Middle East/Africa and for Latin America.

Strategic implication: AT&T is building a strong management team with a global focus. We've reinforced our long-term AT&T managers with a mix of newcomers who bring proven track records and rich experiences. We've also created an effective structure, with a Management Executive Committee that has responsibility for policy, strategy and values, and a Global Operations Team that is responsible for the effectiveness of our operations worldwide.

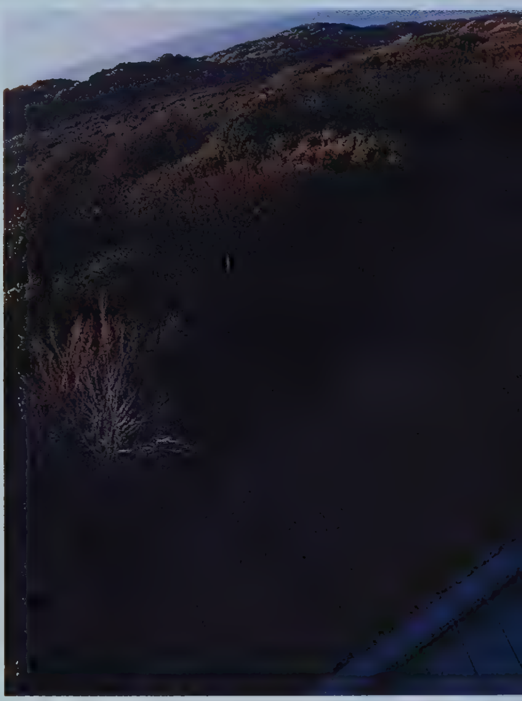
Together, AT&T and its unions shape the "Workplace of the Future"

Considered a model of labor-management cooperation, Workplace of the Future is a result of our 1992 labor contracts with the Communications Workers of America and the International Brotherhood of Electrical Workers. We're working with employees and the unions to increase their involvement and input in planning and decisions. The goals: more flexibility and improved competitiveness for the company and job fulfillment for employees. Customers benefit, too, because Workplace of the Future encourages each worker to strive to improve the quality of the products and services he or she produces.

Strategic implication: To take advantage of global growth opportunities, we need an "empowered" work force. The company and our unions are seeking to fully tap the intelligence, experience and commitment each of our people brings to the job. By so doing, we will strongly increase our competitive advantage.

AT&T pursues environmental goals and funds new field of education

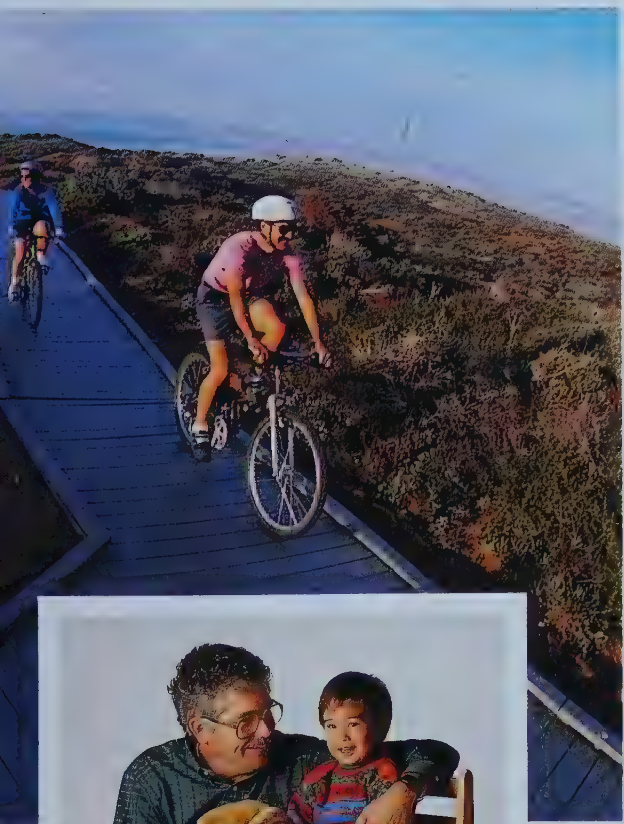
The way to make real progress on the environmental front is to set aggressive goals and use quality techniques to achieve them. In 1993 we reached our goal of eliminating emissions of chlorofluorocarbons (CFCs) and other ozone-depleting substances from our consumer and business product manufacturing operations. Investing more than $25 million in R&D, we created new manufacturing techniques that eliminated these emissions – two and a half years ahead of a worldwide ban on



AT&T Systems Engineer Carl Dorschner can better focus on his job, knowing that his son Ivan has quality day care. AT&T's Family Care Development Fund supports community child care, and our Child Care Resource and Referral Service helps our employees locate care providers.

Union-management cooperation is evident at AT&T's Shreveport Works, where production associate Madonna Roberts and her coach, Shirley Anderson, check out the brilliant graphics of the AT&T Still-Image Phone, which is produced at the plant.

AT&T joined with the California Department of Parks and Recreation to protect the fragile coastal environment and to improve facilities at Montana de Oro State Park, site of the landing of undersea fiber-optic cable connecting the mainland and Hawaii. The project won a national award from the National Association of State Outdoor Recreation Liaison Officers.



them. We're pursuing equally ambitious efforts to decrease toxic air emissions and manufacturing process waste, to reduce our paper use, to increase our recycling efforts, and to use more recycled paper. To sustain environmental gains in the future, the AT&T Foundation earmarked $1 million to promote the emerging environmental field of industrial ecology. Faculty members at six universities received fellowships to advance the study of how to reduce the environmental impact at every stage of a product's life cycle, from design, to manufacture, to use, to disposal.

Strategic implication: AT&T seeks a healthy balance between business interests and environmental protection. Being "green" doesn't necessarily cost; often it pays, by decreasing operational costs and avoiding future liabilities. It's good business and good citizenship.

AT&T helps its people balance work and family demands

More than two-thirds of our employees say they face a growing strain in balancing work and family demands. So AT&T offers an innovative set of programs in support of the family. Our Family Care Development Fund, for example, improves the quality and supply of child- and elder-care services by funding community-based organizations. We've pledged $25 million over six years to this program. We also make possible consultation and referral services to help our people make informed family-care decisions. Other initiatives, like flexible work schedules, telecommuting (made possible by AT&T technology, products and services) and job-sharing, meet the diverse needs of individuals and the company.

Strategic implication: AT&T supports programs that relieve job-family stress so our people can concentrate on doing their jobs and satisfying our customers. Family-friendly programs also help us attract and retain top-notch people, which is essential to our competitiveness.

AT&T invests in the future by investing in education

In July we hosted the first of three annual AT&T Teachers and Technology Institute programs, attended by 48 of America's most innovative junior- and senior-high math and science teachers. The two-week program used interactive video and visits to AT&T Bell Laboratories and the AT&T Network Operations Center to enhance teachers' skills and engage their imaginations. We've also funded a three-year $3 million program, called AT&T Teachers for Tomorrow, to help prepare new teachers for the challenges of inner-city classrooms in Chicago, Dallas, Detroit, Jacksonville, New York City and San Francisco. And an innovative grant to Public Broadcasting Service will help establish MathLine, an interactive telecommunications-based professional development program for middle school teachers. These programs are examples of AT&T's wide-ranging support of education, which includes direct funding ($35 million in 1993), donations of networked computers to colleges and countless hours by AT&T volunteers in schools.

Strategic implication: Sound science and math skills will be critical for workers in the high-tech future. And vital to companies' competitiveness – including ours. We're planting the seeds today by nurturing the educators who teach the students.

Easy

Not enough time? On the go? These AT&T products and services can make your life easier at home and away.

This cellular phone is three times more useful than my previous one. It answers calls when I'm not nearby. Or when I can't pick up. Plus, I just talk to it and it works.

MOBILE CELLULAR TELEPHONE 3050 A cellular phone with a built-in digital, tapeless answering system and voice-activated operation. $399.99 at AT&T Phone Centers and at selected retailers. For more information call 1 800 232-5179.

Retirement means heading for the cabin whenever we feel like it. The kids have our EasyReach® number, so they can always get us.

EASYREACH® SERVICE A long distance phone number that's yours for life, wherever you go or move in the continental U.S. and Hawaii. A subscriber can forward calls to wherever he or she will be and can determine who pays for a call – the caller or the subscriber. A $10 sign-up fee, $7 a month, plus per-call charges. For more information call 1 800 982-8480.

I take the phone with me to the neighborhood grocery store. Just last week I called my neighbor and she asked me to pick up some milk.

EXTENDED RANGE CORDLESS TELEPHONE 9530 A cordless phone with a range about four times the distance of traditional cordless phones. Virtually interference-free privacy and crisp, clear sound on 173 channels. $449.99 at AT&T Phone Centers and at selected retailers. For more information call 1 800 222-3111.

I remember my AT&T Calling Card number since it's my wedding anniversary. Now I don't have to fumble for my card at the airport when I make a call.

PERSONAL CHOICE℠ CALLING CARD Available at no charge to AT&T customers, who can create easy-to-remember card numbers – similar to personalized license plates. For added security, the four-digit personal identification number (PIN) can be omitted from the card. You can customize the card further by specifying certain numbers that can be called with it. For more information call 1 800 CALLATT (225-5288).

Relay service changed my life. I no longer have to depend on hearing people to make calls for me. I even got a promotion at work because now I can use the phone just like everyone else.

AT&T TELECOMMUNICATIONS RELAY SERVICE Allows people who use a text telephone (TT) to communicate with hearing people who use a standard phone. Communications assistants speak, or relay, the TT input to the voice customer and type the voice response to the deaf customer, either of whom may originate the call. Direct-dialing rates apply. For more information call 1 800 855-2800 (TT) or 1 800 855-2881 (voice).

I tell my kids there's no better, or less expensive, way to call collect than AT&T's 1 800 OPERATOR

1 800 OPERATOR May be used from any phone, regardless of the long distance company serving that phone, to get savings on collect calls. Uses speech recognition capability in the AT&T network or, if you prefer, AT&T operators.

With my Safari® computer, I'm as productive at home and on the road as at the office. Important documents are right there with me, and I'm plugged into electronic mail. It's got style, too.

AT&T SAFARI® 3180 high-performance notebook computer Based on the Intel 486™ microprocessor, with monochrome or color display and preloaded software. Modular design, expandable memory and optional docking station for use back at the office. Advanced communications capabilities. $2,590 to $4,050. For more information call 1 800 637-2600.

Our growth comes from competing successfully worldwide in both old and new markets, offering new technology and high-quality products and services.

Financial Section

Consolidated Income Statement Information

Dollars in millions	**1993**	1992	1991
Total revenues	**$67,156**	$64,904	$63,089
Total costs	**40,569**	39,710	38,825
Gross margin	**26,587**	25,194	24,264
Provisions for business restructuring	**498**	64	3,572
Other operating expenses	**19,851**	18,861	19,334
Operating income	**$ 6,238**	$ 6,269	$ 1,358
Income before cumulative effects of accounting changes	**$ 3,974**	$ 3,807	$ 522
Cumulative effects of accounting changes	**(7,768)**	—	—
Net Income (Loss)	**$ (3,794)**	$ 3,807	$ 522
Gross margin percentage	**39.6%**	38.8%	38.5%
Operating margin percentage	**9.3%**	9.7%	2.2%

A discussion and analysis of our results and operations

Global economic conditions improved in 1993, but growth was still sluggish. In Europe and Japan the weak conditions of 1991 and 1992 continued this past year. Against this backdrop, we reported a 3.5% increase in total revenues in 1993, a pickup from the 2.9% increase in 1992.

We made three accounting changes this past year. Because new rules apply to all U.S. companies, we changed our accounting for retiree benefits, postemployment benefits and income taxes. The net after-tax charge to bring our financial statements in line with the new accounting methods caused us to report a net loss for the year. Excluding that net charge and the increase in 1993 expenses caused by the change in accounting for postemployment benefits and a fourth-quarter restructuring charge, our per share earnings were $3.15 in 1993. These accounting changes do not affect cash flows; they only change the expenses we report.

In our new accounting for *retiree benefits,* we estimate and book expenses for retiree benefits during the years employees are working and accumulating these future benefits. When we used the former "pay-as-you-go" accounting, we simply booked our contributions to trust funds for life insurance benefits and the actual claims for benefits such as health care and telephone concessions as they occurred. To use the new method, we made assumptions about trends in health care costs, interest rates and average life expectancy. Then we estimated the future payments for benefits to all present retirees and for accumulated benefits of active em-

Why do we make accounting changes?

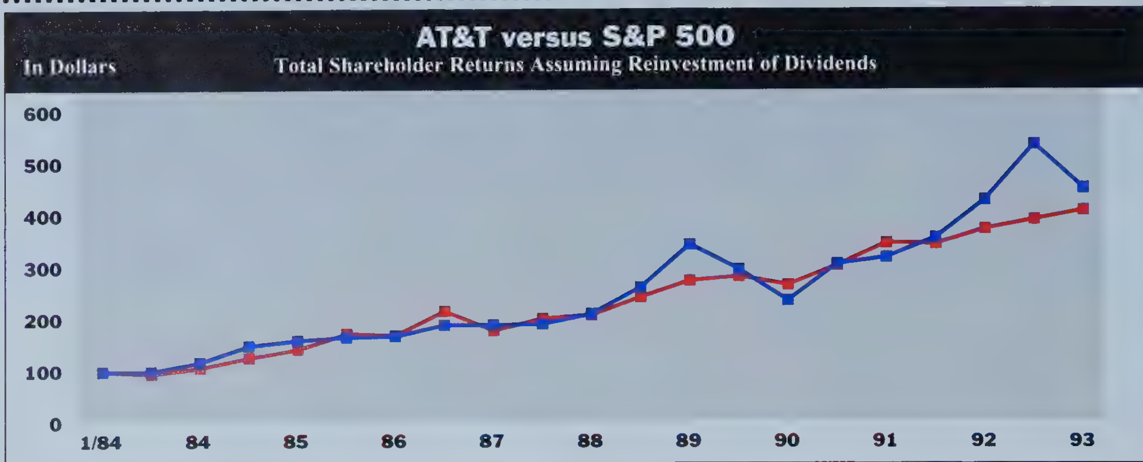
The goal of financial reporting and our objective at AT&T is to give investors the information they need to understand how we're doing over time and in comparison with other companies. Sometimes accounting rule-makers issue new rules for all companies. At other times, we decide to change our methods because of trends in our business or industry.

How do we make the changes?

We first figure out what our balance sheet would look like if we had always used the new accounting methods. Then we make all the adjustments needed to catch up with those new methods. Our income statement shows the net impact of all those adjustments as "cumulative effects on prior years of changes in accounting."

What do the changes mean to results?

Accounting changes sometimes have a large effect on reported earnings in the year of a change, but the effects on future earnings may be quite small once we bring the balance sheet up to date. Because the cumulative effects come from earlier years, many investors set them aside when looking at current results. The income statement format allows investors to see our results easily with or without these cumulative effects of accounting changes.



Your investment has outperformed the S&P 500 for the past decade.

Assumes $100 invested in the new AT&T Common Stock and in the S&P 500 Index on January 1, 1984 and all dividends reinvested.

ployees. We then placed this $11.3 billion liability on the books to reflect those estimated future obligations at January 1, 1993, expressed in today's dollars. From now on, we will continue to record the expenses as employees accumulate future benefits so that our liability for retiree benefits is always up to date. We expect our annual expenses to be at about the same level we recorded before this accounting change.

Our new accounting for *postemployment benefits*, including payments for separations and disabilities, is very similar to our new accounting for retiree benefits. We must book expenses for future separations during the years employees are working and accumulating service with the company, and for disability benefits when the disabilities occur. Using the former method, we booked expenses for separations when we identified them and expenses for disabilities when we made payments. We used our experience over the past five years to estimate future separations. In the future, we will adjust our estimates based on the number of employees who actually leave our payroll with these payments. Because we book expenses every quarter using this accounting method instead of booking expenses when we make plans to restructure our business, this change increased our costs and expenses by $301 million in 1993, and reduced our earnings by $171 million, or $0.13 per share. We expect our earnings in 1994 to be similarly reduced.

Our new accounting for *income taxes* uses the enacted tax rates to compute both deferred and current taxes. That means we must refigure our deferred tax assets and liabilities whenever Congress changes tax rates. Using our former method, we held deferred tax assets and liabilities at their original values even when tax rates changed. Because federal corporate tax rates are lower now than they were before the 1986 Tax Act, we had a gain when we changed to the new accounting method. Apart from the effects of changes in statutory tax rates, we do not expect the new accounting to affect future earnings materially.

An overview of our business operations

Our core business is to meet the communications and computing needs of our customers by using networks to move and manage information. We divide the revenues and costs of this core business into three categories on our income statement: *telecommunications services, products and systems,* and *rentals and other services*. AT&T Capital Corporation (AT&T Capital) and AT&T Universal Card Services Corp. (Universal Card) are partners with our core business units as well as innovators in the financial services industry. We include their revenues and costs in a separate category on our income statement: *financial services and leasing*.

Customer demand for the products and services of our core business continues to grow despite weak economic conditions worldwide. Technological advances and brisk competition are making electronic communications and computing ever more useful and economical. Our financial services businesses are also growing because we are investing in new assets.

We look forward to greater revenue growth in 1994 than in 1993 because of a strengthening economy and the expected completion of our merger with the fast-growing McCaw Cellular Communications, Inc. (McCaw).

Our merger with McCaw aims to give our customers a more comprehensive service offering and our investors faster growth and higher long-term returns on their investment.

Our plan is for McCaw's owners to exchange their McCaw stock for new AT&T stock. Then all owners of the post-merger AT&T will share in the benefits and risks of the combined operations. The people, assets and capital of the two firms won't change just because of this merger.

In mergers like this, we simply add up the earnings, assets, liabilities and equity of the two companies and become one company. We used this same method, called a "pooling of interests," for the merger of AT&T and NCR in 1991.

After a merger, financial statements and all other financial information show the combined amounts as if there had always been only one company. To help you picture this, we included some of these combined amounts at the bottom of the ten-year summary of selected financial data. We computed these amounts assuming the merger was already completed using a one-for-one exchange of shares as AT&T and McCaw proposed in the merger agreement.

Ten-Year Summary of Selected Financial Data

(Unaudited)

Dollars in millions (except per share amounts)

	1993*	1992	1991*	1990	1989	1988*	1987	1986*	1985	1984	Jan. 1, 1984
Results of Operations											
Total revenues	**$67,156**	$64,904	$63,089	$62,191	$61,100	$61,756	$60,530	$61,906	$63,130	$60,318	
Research and development expenses	**3,069**	2,911	3,114	2,935	3,098	2,988	2,810	2,599	2,527	2,477	
Operating income (loss)	**6,238**	6,269	1,358	5,496	5,024	(2,275)	4,281	999	3,569	2,824	
Income before cumulative effects of accounting changes	**3,974**	3,807	522	3,104	3,109	(1,230)	2,463	651	1,872	1,713	
Net income (loss)	**(3,794)**	3,807	522	3,104	3,109	(1,230)	2,463	476	1,872	1,713	
Earnings (loss) per common share before cumulative effects of accounting changes	**2.94**	2.86	0.40	2.42	2.40	(0.94)	1.82	0.42	1.31	1.23	
Earnings (loss) per common share	**(2.80)**	2.86	0.40	2.42	2.40	(0.94)	1.82	0.29	1.31	1.23	
Dividends declared per common share	**1.32**	1.32	1.32	1.32	1.20	1.20	1.20	1.20	1.20	1.20	
Assets and Capital											
Property, plant and equipment–net	**$19,397**	$19,358	$18,689	$18,661	$17,023	$16,394	$21,866	$22,061	$23,133	$22,167	$21,416
Total assets	**60,766**	57,188	53,355	48,322	42,187	39,869	44,014	43,617	44,683	43,418	39,156
Long-term debt including capital leases	**6,812**	8,604	8,484	9,354	8,377	8,350	8,027	7,789	8,026	8,943	9,462
Common shareowners' equity	**13,850**	18,921	16,228	15,883	14,723	13,705	16,617	15,946	16,951	15,839	14,413
Net capital expenditures	**3,701**	3,933	3,860	4,018	3,951	4,288	3,805	3,904	4,295	3,685	
Other Information											
Operating income (loss) as a percentage of revenues	**9.3%**	9.7%	2.2%	8.8%	8.2%	(3.7)%	7.1%	1.6%	5.7%	4.7%	
Net income (loss) as a percentage of revenues	**(5.6)%**	5.9%	0.8%	5.0%	5.1%	(2.0)%	4.1%	0.8%	3.0%	2.8%	
Return on average common equity	**(29.0)%**	21.1%	3.1%	19.7%	21.8%	(7.2)%	15.0%	2.2%	10.7%	10.5%	
Data at year-end except last column:											
Stock price per share	**$52.50**	$51.00	$39.125	$30.125	$45.50	$28.75	$27.00	$25.00	$25.00	$19.50	$17.875
Book value per common share	**$10.24**	$14.12	$12.39	$12.46	$11.54	$10.55	$12.66	$11.91	$12.58	$12.00	$11.39
Debt ratio	**56.1%**	46.1%	48.9%	47.6%	43.0%	41.6%	36.1%	34.4%	34.5%	36.5%	40.1%
Debt ratio excluding financial services	**28.3%**	25.4%	34.7%	38.3%	36.3%	37.3%	32.5%	32.2%	32.9%	36.2%	40.1%
Employees	**308,700**	312,700	317,100	328,900	339,500	364,700	365,000	378,900	399,600	427,200	435,000
Pro-Forma Information Reflecting the Prospective Merger of AT&T and McCaw											
Total revenues	**$69,351**	$66,647	$64,455	$63,228	$61,604	$62,067	$60,726	$61,975	$63,159	$60,326	
Total costs and expenses	**62,853**	60,119	62,981	57,684	56,720	64,496	56,585	61,000	59,689	57,501	
Net income (loss)	**(5,906)**	3,442	171	3,666	2,820	(1,527)	2,374	434	1,856	1,712	
Earnings (loss) per common share	**(3.83)**	2.27	0.12	2.50	1.96	(1.07)	1.64	0.30	1.29	1.22	
Total assets	**69,392**	66,104	62,072	57,036	45,228	41,945	45,583	44,305	44,824	43,461	
Total long-term debt	**11,802**	14,166	13,683	14,579	10,116	10,172	9,060	8,234	8,104	8,963	
Common shareowners' equity	**13,373**	20,312	17,972	17,928	15,727	13,694	16,913	15,849	16,945	15,852	

* 1993 data reflect a $7.8 billion net charge for three accounting changes.
1991 data reflect $4.5 billion of business restructuring and other charges.
1988 data reflect a $6.7 billion charge due to accelerated digitization of the long distance network.
1986 data reflect $3.2 billion of charges for business restructuring, an accounting change and other items.

Changes in our competitive landscape

Multimedia networks will lead to new ways of communicating and computing and new forms of education and entertainment.

Telephone and cable television firms are forming alliances to speed their delivery of multimedia services to the home. A notable example is the proposed merger of Bell Atlantic Corp. and Tele-Communications Inc. Focusing on the programming to be provided by these networks, QVC Network Inc. and Viacom Inc. were competing to acquire Paramount Communications Inc., the entertainment company, at year-end.

Several firms are announcing major new networks. Pacific Bell's planned $16 billion network is a good example. AT&T, as a supplier of network systems and services and a provider of multimedia products and services, will be a supplier as well as a customer and competitor of these firms.

The new alliances and networks, increasing competition, and changes in technology and regulation are all leading to more choices for customers. These trends should also lower our costs to reach customers over local networks. Success in this new multimedia environment will depend on innovation and giving customers value for their purchases.

Competition is global and increasingly between multinational firms with partners from different nations.

To offer one-stop shopping for telecommunications services to companies that do business globally, we formed WorldPartners with Kokusai Denshin Denwa Co. Ltd. of Japan and Singapore Telephone. We intend to also find European partners or build networks there ourselves, spending as much as $350 million. British Telecom Plc and MCI Communications Corp. (MCI) also formed an alliance, as did Germany's Deutsche Bundespost Telekom and France Telecom.

British Telecom applied to the FCC to provide long distance service in the U.S. We applied to provide service in the U.K. and also asked the FCC to prevent non-U.S. carriers from operating in the U.S. unless we can compete in their home markets.

We extended our rivalry with MCI to Canada through an alliance with Unitel Communications, Inc. MCI is allied with the Stentor consortium there. Mexico will open long distance services to competition from U.S. carriers in 1996 as part of the North American Free Trade Agreement (NAFTA). NAFTA should also aid our sales of network systems to Mexico.

In 1993 we signed an important agreement with the People's Republic of China, where we will compete with Canada's Northern Telecom Ltd., France's Alcatel Alsthom S.A., Sweden's Telefon AB L.M. Ericsson and possibly others. This past year we also won our first contract to supply switching equipment to Japan, a market that is dominated by Fujitsu Ltd. and NEC Corp.

Cost controls, coupled with our revenue growth, caused our gross margin percentage to improve the past two years. Operating expenses grew 7.5% in 1993, mainly because of marketing and sales efforts for telecommunications services and provisions for business restructuring. Such marketing and sales expenses also rose in 1992, but total operating expenses declined because of restructuring and other charges in 1991.

To increase our presence outside the U.S., we are hiring employees, building plants and forming joint ventures. However, during the past two years the economies of Europe and Japan were very weak and we needed to restructure some of our overseas operations. For these reasons we reported an operating loss in our operations outside the U.S. both years. Nevertheless, we continue to believe that these operations and markets provide excellent opportunities for future growth in revenues and earnings.

All our business units face stiff competition. Prices and technology are under continual pressure. Such market conditions, along with a slow-growing economy, make the ongoing need for active cost controls even more urgent. Managers must continuously assess their resource needs and consider further steps to reduce costs. Sometimes these steps will include consolidating facilities, disposing of assets, reducing work force or withdrawing from markets.

Like other manufacturers, we use, dispose of and clean up substances that are regulated under environmental protection laws. We also have been named a potentially responsible party (PRP) at a number of Superfund sites. At most of these sites, our share is very limited and there are other PRPs who can be expected to contribute to the cleanup costs. We review potential cleanup costs and costs of compliance with environmental laws and regulations regularly. Using engineering estimates of total cleanup costs, we estimate our potential liability for all currently and previously owned properties where some cleanup may be required, including each Superfund site where we are named a PRP. We provide reserves for these potential costs and regularly review the adequacy of our reserves. In addition, we forecast our expenses and capital expenditures for existing and planned compliance programs as part of our regular corporate planning process. Despite these procedures, it is very difficult to estimate the future impact of actions regarding environmental matters, including potential liabilities to us. However, we believe that cleanup costs and costs related to environmental proceedings and ongoing compliance with present laws will not have a material effect on our future expenditures, earnings or competitive position beyond that provided for at year-end.

Many of our employees are represented by unions. In 1992 AT&T management and union bargainers negotiated innovative labor agreements with provisions for employees' career security and well-being as well as higher wages and increased employee ownership of the business. Under the wage portion of the agreements, employees at the top of each wage schedule received increases of 4% in 1992 and 3.9% in 1993, and will receive an increase of 3.9% in 1994. Pensions are increased by 13% for those who retire after May 31, 1992. The agreements also retained management flexibility to react to business conditions while enhancing education, training and job-changing opportunities for employees.

Telecommunications Services

These revenues grew 0.7% in 1993 and 2.0% in 1992, driven by volume growth. Billed minutes for switched services rose 5.5% in 1993 and 6% in 1992, paced by business services. Volume growth exceeds revenue growth as customers select more of the higher-value, lower-priced services made possible by our greater efficiency. This shift in the mix of services that customers select lowers average per-minute revenues. In the latter

half of 1993 we raised some of our prices and fees—about $500 million on an annual basis. These increases were primarily for services where customer demand is not very sensitive to price. In late December we filed for 1994 price increases of $750 million on an annual basis and also announced a new discount plan for high-volume callers. We expect the effects on revenues of this discount plan and those 1994 price increases to offset each other. In January 1994 we also proposed to raise prices for some business services by $165 million on an annual basis.

We expect improving economic conditions and higher prices to cause our telecommunications services to grow faster in 1994 than in 1993.

Telecommunications Services

Dollars in millions	1993	1992	1991
Total revenues	**$39,863**	$39,580	$38,805
Costs			
Access and other interconnection costs	**17,709**	18,132	18,395
Other costs	**7,009**	7,135	6,881
Total costs	**24,718**	25,267	25,276
Gross margin	**$15,145**	$14,313	$13,529
Gross margin percentage	**38.0%**	36.2%	34.9%

This past year we announced AT&T *TrueVoice*® service, a new, patented technology to improve the sound quality on calls placed within the continental U.S. and Canada. We expect to complete the national rollout by April 1994 so that AT&T *TrueVoice* service will operate automatically on every call placed on our network. We believe it gives us a competitive advantage that will help us attract and keep customers.

Markets for telecommunications services are extremely competitive. AT&T is the market leader, but we saw another small decline in our market share this past year. Our own data and the data of the Federal Communications Commission (FCC) show that our market share is about 60% of the minutes billed for inter-LATA switched services. We withstood an important challenge to our market position when the FCC allowed customers of inbound "800" services to switch carriers without penalties for a 90-day period in 1993. We retained 95% of our 531 largest customers and won contracts away from our competitors. Many of these customers signed long-term contracts, so we emerged from this "Fresh Look" period with signed contracts having a greater dollar value than those we had before.

The FCC and state utility commissions regulate our services, and many more rules are imposed on us than on our competitors. Because of fierce competition and rapid changes in technology and customer needs, the FCC adopted "price caps" in 1989, increasing our flexibility to respond to those market conditions. Since then, the FCC has removed all limits on our prices for many business services. However, the FCC decided in June 1993 to continue price caps for residential services instead of reducing regulation of AT&T.

Total costs of telecommunications services declined this past year; costs in 1992 were about level with those in 1991. Despite higher calling volumes, access and other interconnection costs dropped both years largely because of lower prices from telephone companies to reach customers over local networks. The 1993 decrease in other costs was mainly due to lower uncollectibles. We also had lower depreciation expense because we reduced plant additions. The 1992 increase in other costs was associated with higher service volumes. We also had higher uncollectibles because of fraud and the weak economy.

Products and Systems

Despite a weak global economy and intense price competition, our sales grew 8.0% in 1993 and 3.3% in 1992. Sales outside the U.S. grew at a faster rate than U.S. sales and contributed more than half the increase in both years. Based on our current expectations for the global economy, we expect greater sales growth in 1994.

Products and Systems

Dollars in millions	1993	1992	1991
Revenues			
Telecommunications network products and systems	**$ 8,345**	$ 7,691	$ 7,490
Computer products and systems	**3,597**	3,433	3,667
Communications products and systems	**3,438**	3,098	2,852
Microelectronics products, special-design products for U.S. government, and other*	**2,418**	2,251	1,932
Products and systems	**17,798**	16,473	15,941
Total costs	**10,809**	9,846	9,134
Gross margin	**$ 6,989**	$ 6,627	$ 6,807
Gross margin percentage	**39.3%**	40.2%	42.7%

* "Other" is composed principally of media, predominantly for use with automated teller machines and point-of-sale equipment, and business forms.

Revenues from sales of telecommunications network products and systems grew 8.5% in 1993 and 2.7% in 1992. The 1993 increase came chiefly from higher sales of wireless products, switching equipment and operations systems. In 1992 the growth came mainly from higher sales of cable systems and switching equipment. Sales outside the U.S. rose both years while U.S. sales grew in 1993. Orders were heavily weighted toward the 1991 start of a seven-year, $600 million contract to supply GTE Corporation with wireless equipment, so U.S. sales were lower in 1992.

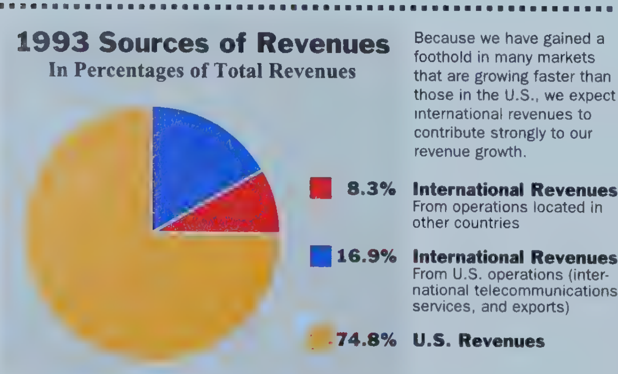
Many countries are modernizing their communications networks. This will lead to many sales opportunities in the years ahead. We expect to partner with these countries because we provide a full range of integrated products and services and, sometimes, assistance in financing their equipment purchases.

In February 1993 we signed an agreement with the State Planning Commission of the People's Republic of China. Under that proposed partnership, we expect to engage in local research, development and manufacturing of central office switching equipment, cellular communications systems and telecommunications networks for use in that country.

Sales to the regional Bell companies grew in 1993 after staying about level in 1992. In 1993 Pacific Bell announced plans to construct a broadband network over seven years. We were selected as a critical supplier and systems integrator for the project, and expect up to $5 billion in revenues from the project. Other regional carriers also have plans to modernize their networks. Because we provide the latest digital technology and services, we expect to win some sizable contracts.

Revenues from sales of computer products and systems rose 4.8% in 1993 after falling 6.4% in 1992. The growth in 1993 came mainly from higher U.S. sales of workstations, automated teller machines, and mid-range and high-end systems for enterprise-wide computing. The decline in 1992 was mainly due to the loss of sales from some products that were phased out after the 1991 merger of AT&T and NCR Corporation (NCR). In both years we faced fierce competitive pricing, particularly for lower-end computer products, and weak economic and market conditions in Europe and Japan. We recorded no revenues from UNIX System Laboratories, Inc. (USL) in 1993 because we sold our ownership interest and included USL's net results in other income–net. USL's revenues from computer products were $74 million in 1992 and $71 million in 1991.

Revenues from sales of communications products and systems grew 11.0% in 1993 and 8.6% in 1992. About two-thirds of the growth in 1993 came from higher sales of business communications products and systems. We also had higher sales of consumer-oriented products, submarine cables and data communications equipment. The growth in revenues from consumer communications products reflected higher sales of cellular products, corded telephones, telephone answering devices and non-AT&T products such as pagers and electronic games, which was partially offset by lower sales of cordless telephones. The increase in sales of consumer-oriented products was larger in 1992, driven by higher sales of cordless telephones and telephone answering systems. Sales of submarine cables, business communications systems and data communications equipment also contributed to the growth in revenues that year.



In total, revenues from sales of microelectronics products, special-design products for the federal government, and other products and systems grew 7.4% in 1993 and 16.5% in 1992. Growth in both years came mainly from higher sales of microelectronics components and power systems to original equipment manufacturers outside the U.S. Sales of media and business forms were steady in 1993 after rising in 1992. Because of reduced spending by the U.S. federal government, sales of special-design products, such as secure phones, declined both years.

Higher sales levels caused costs of products and systems to increase both years. Pricing pressures and changes in our product sales mix caused the gross margin percentage to decline.

Rentals and Other Services

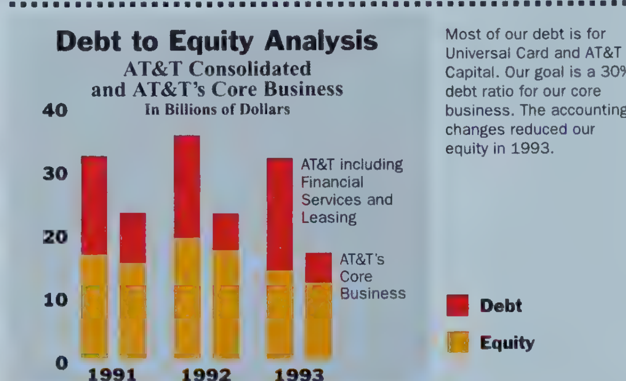
These revenues were about level the last three years. Higher revenues from newer telecommunications services and maintenance contracts for communications systems were offset by the continuing and expected decline in rentals of communications equipment. The fast-growing revenues from "other rentals and services" come from many different services, such as network management and satellite services, which generate small revenue streams. We expect the principal trends in this revenue category to continue in 1994.

Rentals and Other Services

Dollars in millions	**1993**	1992	1991
Revenues			
Computer products and systems	**$2,514**	$2,667	$2,676
Communications products and systems rentals	**1,174**	1,409	1,674
Communications products and systems services	**1,457**	1,375	1,299
Other*	**1,846**	1,506	1,310
Rentals and other services	**6,991**	6,957	6,959
Total costs	**3,331**	3,287	3,344
Gross margin	**$3,660**	$3,670	$3,615
Gross margin percentage	**52.4%**	52.8%	51.9%

* "Other" is composed principally of global messaging and electronic mail services, telemarketing services, information technology services and facility rentals.

Although the gross margin percentage improved since 1991 because of a smaller work force, the continuing shift in revenue mix to other services from higher-margin rentals led to a decline in the margin percentage in 1993.



Financial Services and Leasing

These revenues grew 32.2% in 1993 and 36.8% in 1992. Both Universal Card and AT&T Capital contributed to the growth by profitably expanding their portfolios of earning assets. We expect continuing growth in these revenues, earnings and assets in 1994.

Financial Services and Leasing

In millions	1993	1992	1991
Revenues			
AT&T Capital	**$ 1,360**	$ 1,266	$ 1,160
Universal Card	**1,228**	831	475
Eliminations, adjustments and other*	**(84)**	(203)	(251)
Total revenues	**$ 2,504**	$ 1,894	$ 1,384
Total costs	**1,711**	1,310	1,071
Gross margin	**$ 793**	$ 584	$ 313
Gross margin percentage	**31.7%**	30.8%	22.6%
Operating income (loss)	**$ 339**	$ 193	$ (34)
Operating margin percentage	**13.5%**	10.2%	(2.5)%
Assets	**$17,033**	$14,003	$ 9,809
Universal Card Information:			
Finance receivables	**$ 9,154**	$ 6,606	$ 3,786
Accounts	**11.7**	10.3	7.6

* "Other" is composed principally of revenues from certain lease finance assets AT&T retained when AT&T Capital was reorganized.

Universal Card is the second largest competitor in its industry measured by customer accounts. Since its start in 1990 Universal Card pioneered a variety of innovative promotions to add new accounts, many involving the transfer of balances from other credit cards. But our credit approval and monitoring have kept our percentage of delinquent balances and write-offs below industry norms. Universal Card became profitable in 1992, well ahead of our projection when we entered the business.

After an initial public offering of its common stock in August 1993, AT&T Capital became the largest publicly owned equipment leasing and financing company in the U.S. AT&T still owns about 86% of its stock, so its results are still fully consolidated in our financial statements. We unconditionally guaranteed all of AT&T Capital's outstanding debt at the end of March 1993, before its legal reorganization. Since then, all AT&T Capital debt has been issued using its own credit. This change makes it financially independent and permits us to focus on the financing needs of our core business.

The growth in costs of financial services and leasing over the last two years came from the higher volume of financing and credit card transactions. The improved gross margin percentage mainly reflects the maturation of the credit card receivables portfolio. A lower cost of funds due to lower interest rates in 1993 also contributed to the improved margin percentage.

By 1995 we must change our accounting for the loans we make to customers. Under the new rules we must consider delays or reduced payments of interest as well as principal when we value loans that may not be fully repaid. We do not expect this change to affect our costs or expenses materially.

Operating Expenses

Selling, general and administrative expenses increased 5.2% in 1993, largely because of advertising and promotions, and sales and sales support activities to protect our core business. Such spending, and costs to expand outside the U.S. and into new markets, will continue to grow. These expenses also rose in 1992, but the increase was not evident because 1991 expenses included $501 million in charges related to business restructuring activities and the merger of AT&T and NCR.

Research and development expenses increased 5.4% in 1993, but decreased 6.5% in 1992. The increase was mainly for work on cellular technology, advanced communications services and devices, and projects aimed at international growth. In 1992 we streamlined development work on telecommunications network systems and consolidated development activities for computer systems following the merger of AT&T and NCR.

In 1993 AT&T Global Information Solutions (formerly NCR) offered an early retirement program and a voluntary separation program to its U.S.-based employees. That unit expects to reduce its work force by about 15%, or 7,500 employees, in 1994. About 2,200 employees accepted the early retirement offer. Employees accepting the voluntary separation package must respond before February 1994.

Our 1993 provisions for business restructuring cover special benefits provided to employees accepting early retirement offers as well as other costs of closing facilities and relocating employees. In addition to the changes at AT&T Global Information Solutions, we are re-engineering and centralizing support services for telecommunications services. These ongoing efforts to raise productivity are part of our commitment to meet the challenge of intense competition.

Our 1991 provisions for business restructuring were primarily for costs to make changes in our computer and business equipment operations and in our use of leased and owned space. The changes in our computer operations were initiated because of the merger of AT&T and NCR.

Other Income Statement Items

Other income–net depends mostly on our cash balance and the results and changes in our investments and joint ventures. Over the last two years we reduced our balance of cash and temporary cash investments because we have easy access to financing when we need it. Our interest income declined over the past two years because we had less cash on hand and interest rates were lower. Income from our equity investments, coupled with our sharing of earnings from AT&T subsidiaries that are partly owned by other companies, declined in 1993 after increasing in 1992.

Miscellaneous pretax gains and losses caused the largest shifts in other income–net over the three years:

- In 1993 we had a $217 million gain when we exchanged our remaining 77% interest in UNIX System Laboratories, Inc. (USL) for about 3% owner-

ship of Novell, Inc., a leading software development company.

- We sold our remaining interest in Compagnie Industriali Riunite S.p.A. (CIR) in 1993 for a slight gain. Because of declines in its market value, we wrote down that investment by $68 million in 1992 and by $218 million in 1991. CIR's value had declined along with the Italian securities market and because of lower earnings from its principal holding, Ing. C. Olivetti & C.', S.p.A.
- In 1991 we had a $171 million gain from selling our investment in Sun Microsystems, Inc.

Sales of stock by our subsidiaries produced a $9 million loss in 1993 and a $43 million gain in 1991. The 1993 loss came from deducting recourse loans made to AT&T Capital's senior management so they would purchase shares and take a larger personal stake in the success of the business following the initial public offering. When the loans are repaid in seven years, we expect to report a net $6 million gain on this offering. The $43 million gain in 1991 came from USL selling stock to other companies to encourage their support for open computing standards.

Interest expense declined over the past two years because of benefits from refinancing long-term debt at favorable rates and reduced requirements for contingent liabilities. The benefits of refinancing, which were partly offset by costs of that refinancing such as call premiums, were responsible for about half of the decline in 1993 and two-thirds of the decline in 1992.

Income Taxes Information

Dollars in millions	**1993**	1992	1991
Income before income taxes and cumulative effects of accounting changes	**$6,204**	$5,958	$ 883
Provision for income taxes*	**2,230**	2,151	361
Effective income tax rate	**36.0%**	36.1%	40.9%
Income taxes paid	**$1,675**	$ 697	$1,308

* The cumulative effects of accounting changes include the tax effects of those adjustments.

The provisions for income taxes increased the past two years mainly because of higher "book income," that is, the income before income taxes and cumulative effects of accounting changes. The effective tax rate was at about the same level in 1993 and 1992. The rate was much higher in 1991 because the tax effects of restructuring charges were magnified by the lower income before income taxes.

Congress increased the federal statutory tax rate to 35% in August 1993 and made the change retroactive to January 1, 1993. We recognized a $73 million benefit from adjusting our deferred tax assets for the new rate. But that benefit was mostly offset by the increase in taxes on 1993 taxable income, caused by the higher rate. Consequently, this change in rates did not affect our 1993 net income materially.

Total Assets, Working Capital and Liquidity....

Net working capital—current assets less current liabilities—is a measure of our ability to cover short-term liabilities with assets that we expect to convert to cash soon. For example, collecting receivables helps us to pay our suppliers. We reduced our cash balance and working capital in 1993 to lower our "opportunity" costs of maintaining that capital. Our financial condition gives us easy access to financing when we need it, so we now target a cash balance under $800 million.

Balance Sheet Information

Dollars in millions	**1993**	1992	Change
Working capital	**$ 4,404**	$ 5,128	$ (724)
Cash and temporary cash investments	**532**	1,310	(778)
Total assets	**60,766**	57,188	3,578
Total debt	**17,716**	16,204	1,512
Total shareowners' equity	**13,850**	18,921	(5,071)
Days sales outstanding for core business	**59.5**	63.2	(3.7)
Inventory turnover	**3.4**	3.2	0.2

The growth in accounts receivable comes from our higher sales levels. Days sales outstanding in our core business, defined as average accounts receivable divided by average daily revenues in our core business, declined because of improved receivables management. To spur further growth in revenues and earnings for financial services and leasing, we invested in additional finance receivables from our credit card and equipment financing and leasing businesses. We keep a close watch on account status, which has helped us maintain a low level of delinquent balances and write-offs.

Higher inventory levels are associated with our sales growth, which we expect to continue in 1994. Improved inventory management in 1993 led to increased inventory turnover.

Making better use of existing capacity on our long distance network, we reduced capital expenditures in 1993. Our plant additions were at about the same level as depreciation, leaving property, plant and equipment, net of accumulated depreciation, essentially unchanged.

The fair value of our pension plan assets is greater than our projected pension obligations. Those plan assets are earning a return that exceeds the growth in pension liabilities. In addition, we are amortizing a transition asset related to our 1986 change in pension accounting over 15.9 years, which produces about $500 million of income each year. Consequently, we had pension income that added to our prepaid pension costs.

Under an agreement with unions representing many of our employees, we transferred some of these excess pension assets over the past two years to fund retiree health care benefits. Before 1993 we included these prepaid health care costs in other assets. However, when we added the liabilities for retiree benefits to our balance sheet in 1993, because of the new accounting rule, we netted these prepaid costs with the liabilities. We did something similar when we netted the trusts for disability payments with liabilities for separations and disabilities. Our net liabilities for postretirement and postemployment liabilities are now combined on our balance sheet. Our recognition of these liabilities created additional deferred tax assets.

The increase in investments mainly reflects a $400 million purchase of McCaw stock in February 1993. We also acquired shares in Novell, Inc. and Unitel Communications, Inc. (Unitel).

In 1994 we must change the way we report and account for investments in equity securities that have readily determinable fair values and all debt securities. We do not expect this change to have a material effect on our earnings or financial position.

Accounts payable are lower because of reduced access and other interconnection costs. Payroll and benefit-related liabilities are higher mainly due to increases in the associated expenses and benefit costs. Other current liabilities declined because some restructuring reserves were reclassified to postemployment liabilities (because of our accounting change) and others were used for restructuring.

Higher debt maturing within one year chiefly reflects commercial paper we issued to support financial services. Lower long-term debt, including capital leases, was the net result of our refinancing and redemption activities. Our recognition of predivestiture retirees' benefits led to higher other liabilities.

Minority interests, which represent other companies' ownership interests in our net assets, increased mainly because of the sale of 14% ownership in AT&T Capital in August 1993.

Despite the increase in income before cumulative effects of accounting changes, operating cash flows declined in 1993 after growing the year before. The decline was mainly due to higher inventories and accounts receivable. The greater cash flow in 1992 reflected a smaller increase in working capital requirements and higher earnings compared with 1991.

For the three years operating cash flows covered our net capital expenditures and dividend payments. We expect such cash flows to continue covering capital expenditures and dividends in 1994.

Investing Activities

Net capital expenditures were $3.7 billion in 1993, compared with $3.9 billion the two previous years. Most of our capital expenditures are for the AT&T Worldwide Intelligent Network. In 1993 we reduced capital expenditures for the network because technological advances permit us to use existing capacity more efficiently. Net expenditures for the network, at market price, were $2.2 billion in 1993, compared with $3.0 billion in 1992 and $2.5 billion in 1991. These additions provide for growth, modernization and enhanced reliability. Other capital expenditures are for equipment and facilities used in leasing operations, manufacturing, and research and development. We expect our net capital expenditures for the network and in total to remain at about the same level in 1994.

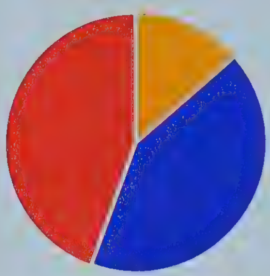
We are also investing in finance receivables, particularly credit card receivables, to increase revenues and earnings from our financial services businesses. These capital requirements will continue growing in 1994.

In 1993 we made a $400 million investment in McCaw and reached a definitive agreement on a merger. Our alliance will undertake joint projects and marketing efforts. We also acquired a 20% equity interest in Unitel for cash and advanced telecommunications equipment valued at approximately $120 million.

In 1991 equity investments were a net source of cash because we had net proceeds of $687 million from selling our shares in Sun Microsystems, Inc.

1993 Investing Activities

In Percentages of $8.3 Billion Net Cash Flows



Investments in our network, financial operations and alliances pave the way for further growth in revenues and earnings.

44.4% Net Capital Expenditures
Worldwide Intelligent Network
Research and Development facilities
Manufacturing facilities
Other

41.8% Net Increase in Finance Receivables
AT&T Universal Card
AT&T Capital Corp. finance programs

13.8% Equity Investments and Other
McCaw Communications, Inc.
Unitel Communications, Inc.
Others (e.g., WorldPartners, The ImagiNation Network, Inc., General Magic Corp.)

We have a 49% interest in a joint venture with GTE, called AG Communications Systems Corporation, which is developing new technology and capabilities for GTE's digital switching systems. By agreement, our ownership will increase to 80% in 1994 and to 100% in 2004. When we raise our ownership in 1994, we will fully consolidate this venture in our financial statements.

Financing Activities and Capitalization

The growth of our financial services and leasing business over the past three years was the primary reason for the increase in total debt outstanding and for most of our financing needs. We expect increasing capital requirements for financial services in 1994.

Over the past three years we took advantage of favorable levels of interest rates to extend debt maturities by refinancing a substantial amount of long-term debt. Much of the financing activity shown on our statements of cash flows relates to these refinancing activities.

The ratio of total debt to total capital (total debt plus total equity) increased to 56.1% at December 31, 1993, compared with 46.1% at December 31, 1992, primarily because of the effects on equity of adopting accounting changes. Excluding financial services and leasing operations, the debt ratio increased to 28.3% at December 31, 1993, compared with 25.4% at December 31, 1992.

For the past three years we have issued new shares of common stock in our shareowner and employee plans. In connection with the merger in 1991, NCR sold 6.3 million shares of common stock held as Treasury stock (approximately 17.9 million shares of AT&T common stock after conversion). The proceeds from all newly issued shares were used for general corporate purposes. The dilution in earnings per share from new issuances was not material.

We sell equity interests in AT&T subsidiaries only when opportunities or circumstances warrant. We have no present plans to sell material interests in subsidiaries.

Excluding the cumulative effects of the 1993 accounting changes, return on equity was 19.2%, compared with 21.1% in 1992.

Report of Management

Management is responsible for the preparation, integrity and objectivity of the financial statements and all other financial information included in this report. Management is also responsible for maintaining a system of internal controls as a fundamental requirement for the operational and financial integrity of results.

The financial statements, which reflect the consolidated accounts of AT&T and subsidiaries, and other financial information shown were prepared in conformity with generally accepted accounting principles. Estimates included in the financial statements were based on judgments of qualified personnel.

To maintain its system of internal controls, management carefully selects key personnel and establishes the organizational structure to provide an appropriate division of responsibility. We believe it is essential to conduct business affairs in accordance with the highest ethical standards as set forth in the AT&T Code of Conduct. These guidelines and other informational programs are designed and used to ensure that policies, standards and managerial authorities are understood throughout the organization. Our internal auditors monitor compliance with the system of internal controls by means of an annual plan of internal audits. On an ongoing basis, the system of internal controls is reviewed, evaluated and revised as necessary in light of the results of constant management oversight, internal and independent audits, changes in AT&T's business and other conditions.

Management believes that the system of internal controls, taken as a whole, provides reasonable assurance that (1) financial records are adequate and can be relied upon to permit the preparation of financial statements in conformity with generally accepted accounting principles, and (2) access to assets occurs only in accordance with management's authorizations.

The Audit Committee of the Board of Directors, which is composed of directors who are not employees, meets periodically with management, the internal auditors and the independent auditors to review the manner in which these groups of individuals are performing their responsibilities and to carry out the Audit Committee's oversight role with respect to auditing, internal controls and financial reporting matters. Periodically, both the internal auditors and the independent auditors meet privately with the Audit Committee. These auditors also have access to the Audit Committee and its individual members at any time.

The financial statements in this annual report have been audited by Coopers & Lybrand, Independent Auditors. Their audits were conducted in accordance with generally accepted auditing standards and include consideration of the internal control structure and selective tests of transactions. Their report follows.

R. W. Miller

Richard W. Miller
Executive Vice President,
Chief Financial Officer

R. E. Allen

Robert E. Allen
Chairman of the Board,
Chief Executive Officer

Report of Independent Auditors

To the Shareowners of American Telephone and Telegraph Company:

We have audited the consolidated balance sheets of American Telephone and Telegraph Company (AT&T) and subsidiaries at December 31, 1993 and 1992, and the related consolidated statements of income and cash flows for the years ended December 31, 1993, 1992 and 1991. These financial statements are the responsibility of AT&T's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of AT&T and subsidiaries at December 31, 1993 and 1992, and the consolidated results of their operations and their cash flows for the years ended December 31, 1993, 1992 and 1991, in conformity with generally accepted accounting principles.

As discussed in Note 2 to the financial statements, in 1993 AT&T changed its methods of accounting for postretirement benefits, postemployment benefits and income taxes.

Coopers & Lybrand

1301 Avenue of the Americas
New York, New York
January 27, 1994

Consolidated Statements of Income

AT&T and Subsidiaries
Years ended December 31

Dollars in millions (except per share amounts)	1993	1992	1991
Sales and Revenues			
Telecommunications services	$39,863	$39,580	$38,805
Products and systems	17,798	16,473	15,941
Rentals and other services	6,991	6,957	6,959
Financial services and leasing	2,504	1,894	1,384
Total revenues	67,156	64,904	63,089
Costs			
Telecommunications services			
Access and other interconnection costs	17,709	18,132	18,395
Other costs	7,009	7,135	6,881
Total telecommunications services	24,718	25,267	25,276
Products and systems	10,809	9,846	9,134
Rentals and other services	3,331	3,287	3,344
Financial services and leasing	1,711	1,310	1,071
Total costs	40,569	39,710	38,825
Gross margin	26,587	25,194	24,264
Operating Expenses			
Selling, general and administrative expenses	16,782	15,950	16,220
Research and development expenses	3,069	2,911	3,114
Provisions for business restructuring	498	64	3,572
Total operating expenses	20,349	18,925	22,906
Operating income	6,238	6,269	1,358
Other income–net	541	352	208
Gain (loss) on sale of stock by subsidiaries	(9)	—	43
Interest expense	566	663	726
Income before income taxes and cumulative effects of accounting changes	6,204	5,958	883
Provision for income taxes	2,230	2,151	361
Income before cumulative effects of accounting changes	3,974	3,807	522
Cumulative effects on prior years of changes in accounting for:			
Postretirement benefits (net of income tax benefit of $4,294)	(7,023)	—	—
Postemployment benefits (net of income tax benefit of $681)	(1,128)	—	—
Income taxes	383	—	—
Cumulative effects of accounting changes	(7,768)	—	—
Net Income (Loss)	$ (3,794)	$ 3,807	$ 522
Weighted average common shares outstanding (millions)	1,353	1,332	1,293
Per Common Share:			
Income before cumulative effects of accounting changes	$ 2.94	$ 2.86	$ .40
Cumulative effects of accounting changes	(5.74)	—	—
Net Income (Loss)	$ (2.80)	$ 2.86	$ .40

The notes on pages 34 through 43 are an integral part of the consolidated financial statements.

Consolidated Balance Sheets

AT&T and Subsidiaries
at December 31

Dollars in millions (except per share amount)	1993	1992
Assets		
Cash and temporary cash investments	$ 532	$ 1,310
Receivables, less allowance of $1,003 and $829		
Accounts receivable	11,933	11,040
Finance receivables	11,370	8,569
Inventories	3,187	2,659
Deferred income taxes	2,079	2,118
Other current assets	637	818
Total current assets	29,738	26,514
Property, plant and equipment–net	19,397	19,358
Investments	1,503	864
Finance receivables	3,815	3,643
Prepaid pension costs	3,576	3,480
Other assets	2,737	3,329
Total assets	$60,766	$57,188
Liabilities and Deferred Credits		
Accounts payable	$ 4,694	$ 5,045
Payroll and benefit-related liabilities	3,746	3,336
Postretirement and postemployment benefit liabilities	1,301	—
Debt maturing within one year	10,904	7,600
Dividends payable	448	443
Other current liabilities	4,241	4,962
Total current liabilities	25,334	21,386
Long-term debt including capital leases	6,812	8,604
Postretirement and postemployment benefit liabilities	9,082	—
Other liabilities	4,298	2,634
Deferred income taxes	275	4,660
Unamortized investment tax credits	270	350
Other deferred credits	263	181
Total liabilities and deferred credits	46,334	37,815
Minority interests	582	452
Shareowners' Equity		
Common shares par value $1 per share	1,352	1,340
Authorized shares: 2,000,000,000		
Outstanding shares: 1,352,398,000 at December 31, 1993;		
1,339,831,000 at December 31, 1992		
Additional paid-in capital	12,028	11,425
Guaranteed ESOP obligation	(355)	(407)
Foreign currency translation adjustments	(32)	65
Retained earnings	857	6,498
Total shareowners' equity	13,850	18,921
Total liabilities and shareowners' equity	$60,766	$57,188

The notes on pages 34 through 43 are an integral part of the consolidated financial statements.

Consolidated Statements of Cash Flows

AT&T and Subsidiaries
Years ended December 31

Dollars in millions	1993	1992	1991
Operating Activities			
Net income	$ (3,794)	$ 3,807	$ 522
Adjustments to reconcile net income to net cash provided by operating activities:			
Cumulative effects of accounting changes	7,768	—	—
Depreciation	3,626	3,540	3,568
Provision for uncollectibles	1,635	1,945	1,233
Provisions for business restructuring	498	64	3,572
(Increase) in accounts receivable	(2,082)	(1,489)	(2,108)
(Increase) decrease in inventories	(540)	551	(59)
(Decrease) increase in accounts payable	(331)	30	109
Net (increase) in other operating assets and liabilities	(52)	(1,084)	(1,382)
Other adjustments for non-cash items–net	401	510	560
Net cash provided by operating activities	7,129	7,874	6,015
Investing Activities			
Capital expenditures net of proceeds from sale or disposal of property, plant and equipment of $241, $250 and $119	(3,701)	(3,933)	(3,860)
Increase in finance receivables, net of lease-related repayments of $3,633, $4,325 and $3,521	(3,483)	(3,878)	(3,052)
Net (increase) decrease in investments	(540)	(12)	473
Acquisitions, net of cash acquired	(414)	(202)	(29)
Other investing activities–net	(201)	(167)	69
Net cash used in investing activities	(8,339)	(8,192)	(6,399)
Financing Activities			
Proceeds from long-term debt issuance	2,456	2,928	1,300
Retirements of long-term debt	(3,483)	(3,684)	(1,196)
Issuance of common shares	619	689	1,164
Dividends paid	(1,774)	(1,748)	(1,563)
Increase in short-term borrowings–net	2,586	1,341	969
Other financing activities–net	25	(72)	2
Net cash provided by (used in) financing activities	429	(546)	676
Effect of exchange rate changes on cash	3	26	(19)
Net (decrease) increase in cash and temporary cash investments	(778)	(838)	273
Cash and temporary cash investments at beginning of year	1,310	2,148	1,875
Cash and temporary cash investments at end of year	$ 532	$ 1,310	$ 2,148

The notes on pages 34 through 43 are an integral part of the consolidated financial statements.

Notes to Consolidated Financial Statements

American Telephone and Telegraph Company (AT&T) and subsidiaries

1. Summary of Significant Accounting Policies

Consolidation

Ownership of affiliates	*Accounting method*
More than 50%	Fully consolidated
20% to 50%	Equity method
Less than 20%	Cost method

We include the accounts of operations located outside the U.S. on the basis of their fiscal years, ended either November 30 or December 31.

Currency Translation

For the business we transact in currencies other than U.S. dollars, we translate income statement amounts at average exchange rates for the year, and we translate assets and liabilities at year-end exchange rates. We show the adjustments from balance sheet translation as a separate component of shareowners' equity.

Revenue Recognition

Revenue from	*Basis of recognition*
Telecommunications Services	Minutes of traffic processed and contracted fees
Products and Systems	Upon performance of contractual obligations
Rentals and Other Services	Proportionately over contract period or as services are performed
Financial Services and Leasing	Over the life of the finance receivables using the interest method

Research and Development

We expense research and development expenditures as incurred (including development costs of software that we plan to sell) until technological feasibility is established. After that time, we capitalize the remaining software production costs as other assets and amortize them to product costs over the estimated period of sales.

Interest Expense

Interest expense is the interest on short-term and long-term debt and accrued liabilities, excluding the interest related to our financial services operations, which is included in cost of financial services and leasing, and net of interest capitalized in connection with construction.

Investment Tax Credits

For financial reporting purposes, we amortize investment tax credits as a reduction to the provision for income taxes over the useful lives of the property that produced the credits.

Earnings per Share

We use the weighted average number of shares of common stock and common stock equivalents outstanding during each period to compute earnings per common share. Common stock equivalents are stock options that we assume to be exercised for the purposes of this computation.

Temporary Cash Investments

We consider temporary cash investments to be cash equivalents for cash flow reporting purposes. They are highly liquid and have original maturities generally of three months or less.

Inventories

We state inventories at the lower of cost or market. We determine cost principally on a first-in, first-out (FIFO) basis.

Property, Plant and Equipment

We state property, plant and equipment at cost and determine depreciation using either the group or unit method. The unit method is used primarily for factory facilities, laboratory equipment, large computer systems, and certain international earth stations and submarine cables. The group method is used for most other depreciable assets. When we dispose of assets that were depreciated using the unit method, we include the gains or losses in operating results. When we sell or retire plant that was depreciated using the group method, we deduct the original cost from the plant account and from accumulated depreciation.

We use accelerated depreciation methods for factory facilities and digital equipment used in the telecommunications network, except switching equipment placed in service before 1989. All other plant and equipment is depreciated on a straight-line basis.

Goodwill

Goodwill is the difference between the purchase price and the fair value of net assets acquired in business combinations treated as purchases. We amortize goodwill on a straight-line basis over the periods benefited, principally in the range of 10 to 15 years.

Reclassifications

We reclassified certain amounts for previous years to conform with the 1993 presentation.

2. Changes in Accounting Principles

Postretirement Benefits

We adopted Statement of Financial Accounting Standards (SFAS) No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," effective January 1, 1993. This standard requires us to accrue estimated future retiree benefits during the years employees are working and accumulating these benefits. Previously, we expensed health care benefits as claims were incurred and life insurance benefits as plans were funded.

When we adopted the new standard, we had an accumulated liability related to past service from retirees and active employees. A portion of that liability was

provided for by group life insurance benefits and trusts for health care benefits funded before 1993.

We also reimburse the divested regional Bell companies for a portion of their costs to provide health care benefits, increases in pensions and other benefits to predivestiture retirees under the terms of the Divestiture Plan of Reorganization. Through 1992 we expensed these reimbursements as incurred. In January 1993 we recognized this liability in connection with the adoption of SFAS No. 106.

We elected to record a one-time pretax charge of $11,317 million to record the unfunded portions of these liabilities. That charge reflects $12,986 million of liabilities less $1,669 million of plan assets and amounts previously recorded. After taxes, that charge was $7,023 million ($5.19 per share), including $1,375 million for predivestiture retirees. Apart from these cumulative effects on prior years of the accounting change, our change in accounting had no material effect on net income in 1993 and is not expected to affect net income materially in future periods. This change does not affect cash flows.

Postemployment Benefits

We also adopted SFAS No. 112, "Employers' Accounting for Postemployment Benefits," effective January 1, 1993. Analogous to SFAS No. 106, this standard requires us to accrue for estimated future postemployment benefits, including separation payments, during the years employees are working and accumulating these benefits, and for disability payments when the disabilities occur. Before this change in accounting, we recognized costs for separations when they were identified and disability benefits when they were paid.

When we adopted the new standard, we had an accumulated liability for payments to employees who were then disabled and for benefits related to the past service of active employees. We recorded a one-time pretax charge of $1,809 million to record the unprovided portion of these liabilities. That charge reflects $2,221 million of liabilities less $412 million of reserves for business restructuring activities that were established before 1993 and reclassified to postemployment liabilities as part of this accounting change. After taxes, that charge was $1,128 million ($0.83 per share). The change in accounting reduced operating income by $301 million, and net income by $171 million ($0.13 per share) in 1993. This change does not affect cash flows.

Income Taxes

We also adopted SFAS No. 109, "Accounting for Income Taxes," effective January 1, 1993. Among other provisions, this standard requires us to compute deferred tax accounts using the enacted corporate income tax rates for the years in which the taxes will be paid or refunds received. Before 1993 our deferred tax accounts reflected the rates in effect when we made the deferrals.

Because corporate income tax rates in 1993 were lower than the rates that existed before the 1986 Tax Act, our adoption of the new standard raised net income by $383 million ($0.28 per share). Apart from this benefit, the new accounting method had no material effect on net income in 1993. Unless Congress changes tax rates, we do not expect this change to affect net income materially in future periods. This change does not affect cash flows.

3. Prospective Accounting Changes ....

Debt and Equity Securities

In 1994 we must adopt SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." This standard addresses the accounting and reporting for investments in equity securities that have readily determinable fair values and for all investments in debt securities. We do not expect this new standard to affect net income materially at or after adoption, and it will not affect cash flows.

Impaired Loans

By 1995 we must adopt SFAS No. 114, "Accounting by Creditors for Impairment of a Loan." This standard requires us to compute present values for impaired loans when determining our allowances for credit losses. We do not expect this new standard to affect net income materially at or after adoption, and it will not affect cash flows.

4. Prospective Merger with McCaw Cellular Communications, Inc. (McCaw) ....

On August 16, 1993 AT&T and McCaw entered into a definitive agreement to merge McCaw and a subsidiary of AT&T, making McCaw a wholly owned subsidiary of AT&T.

In the merger, each share of McCaw's Class A and Class B common stock will be converted into one share of AT&T common stock. However, if the 20-day-average market price of the AT&T common stock as of five business days before the merger is less than $53 per share, the conversion ratio will be adjusted upward to provide shares of AT&T common stock having an aggregate market price of $53 for each share of McCaw common stock, subject to a maximum of 1.111 shares of AT&T common stock. If the 20-day-average market price of AT&T common stock as of five business days before the merger is greater than $71.73 per share, the conversion ratio will be adjusted downward to provide shares of AT&T common stock having an aggregate market price of $71.73 for each share of McCaw common stock, subject to a minimum of .909 of a share of AT&T common stock.

Pursuant to a separate agreement, AT&T has granted McCaw the right, in the event the merger does not close, to require AT&T to purchase from McCaw $600 million of McCaw's Class A common stock at a price of $51.25 per share.

The merger is subject to a number of conditions, including the receipt of regulatory approvals, expiration of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act (HSR Act), receipt of opinions that the merger will be tax free and will be accounted for as a pooling of interests, and McCaw stockholder approval. McCaw stockholders holding a majority of the voting power of the McCaw common stock, including members of the McCaw family and British Telecommunications plc, have agreed to vote in favor of the merger.

The waiting period under the HSR Act will not expire until 20 days after AT&T and McCaw have substantially complied with a September 1993 request from the U.S. Department of Justice (DOJ) for additional information and documents.

In August 1993 AT&T and McCaw filed applications seeking consent of the FCC to the proposed transfer of control of McCaw's radio licenses to AT&T. A number of AT&T's competitors have sought to have conditions imposed on the merger or to deny FCC consent. Final comments were filed in January 1994.

AT&T and McCaw filed applications with nine state regulatory commissions seeking approval or a statement of non-opposition to the merger. All of the states except California have done so. In California, AT&T and McCaw entered into a settlement agreement with the original opposing parties regarding the provision of cellular and interexchange services in that state. In January 1994 AT&T and McCaw filed a reply to objections to the settlement.

BellSouth Corp. (BellSouth) filed a motion in federal court in December 1993 contending that AT&T requires a waiver of the antitrust consent decree to proceed with the merger. In January 1994 the DOJ filed a response that supported that motion in part. AT&T is seeking expedited determination of the issues raised by BellSouth's motion or, alternatively, an expedited waiver of any relevant decree provisions.

5. Supplementary Financial Information

Supplementary Income Statement Information

Dollars in millions	1993	1992	1991
Included in costs of products and systems			
Amortization of software production costs	**$ 359**	$ 315	$ 311
Costs of financial services and leasing			
Interest expense	**$ 506**	$ 485	$ 445
Depreciation, allowance for losses, etc.	**1,205**	825	626
Costs of financial services and leasing	**$1,711**	$1,310	$1,071
Included in selling, general and administrative expenses			
Amortization of goodwill	**$ 76**	$ 68	$ 52
Other income–net			
Interest income	**$ 119**	$ 149	$ 170
Royalties and dividends	**59**	48	55
Earnings applicable to minority interests	**(9)**	56	(1)
Miscellaneous–net	**372**	99	(16)
Other income–net	**$ 541**	$ 352	$ 208
Deducted from interest expense			
Capitalized interest	**$ 72**	$ 62	$ 79

Supplementary Balance Sheet Information

Dollars in millions at December 31	1993	1992
Inventories		
Completed goods	**$ 1,893**	$ 1,689
Work in process and raw materials	**1,294**	970
Inventories	**$ 3,187**	$ 2,659
Property, plant and equipment		
Land and improvements	**$ 746**	$ 690
Buildings and improvements	**8,512**	8,243
Machinery, electronic and other equipment	**31,635**	31,117
Total property, plant and equipment	**40,893**	40,050
Less: Accumulated depreciation	**21,496**	20,692
Property, plant and equipment–net	**$19,397**	$19,358
Investments		
Accounted for by the equity method	**$ 698**	$ 627
Stated at lower of cost or market	**805**	237
Investments	**$ 1,503**	$ 864
Other assets		
Unamortized software production costs	**$ 413**	$ 521
Goodwill, net of accumulated amortization	**894**	766
Prepaid postretirement healthcare costs	**—**	773
Deferred charges and other	**1,430**	1,269
Other assets	**$ 2,737**	$ 3,329
Debt maturing within one year		
Commercial paper	**$ 8,761**	$ 6,053
Long-term debt	**1,860**	1,158
Long-term lease obligations	**52**	108
Other notes	**231**	281
Debt maturing within one year	**$10,904**	$ 7,600

Supplementary Cash Flow Information

Dollars in millions	1993	1992	1991
Interest payments net of amounts capitalized	**$1,284**	$1,118	$1,058
Income tax payments	**1,675**	697	1,308

The following table displays the non-cash items excluded from the consolidated statements of cash flows:

Dollars in millions	1993	1992	1991
Machinery and equipment acquired under capital lease obligations	**$ 15**	$ 60	$ 114
Exchange of stock			
Net assets	**$ (43)**	—	—
Investments	**260**	—	—
	$ 217	—	—
Acquisition activities			
Net receivables	**$ 12**	$ 130	$ 3
Inventories	**1**	48	5
Property, plant and equipment	**139**	76	36
Accounts payable	**(7)**	(37)	(30)
Short- and long-term debt	**(3)**	(93)	(4)
Other operating assets and liabilities–net	**272**	78	19
Net non-cash items	**414**	202	29
Net cash used for acquisitions	**$ 414**	$ 202	$ 29

6. Business Restructuring and Other Charges

Provisions for business restructuring include the estimated costs of specific plans to close offices, consolidate facilities, relocate employees and fulfill contractual obligations, and of other activities involved in restructuring operations. These provisions also cover separation payments made as a result of special offers related to defined benefit plans. Before we changed our accounting for postemployment benefits in 1993, costs for other types of separation payments were also included in these provisions.

Our $498 million in provisions for business restructuring in 1993 covered $227 million of costs at AT&T Global Information Solutions (including, in millions, $137 for special termination benefits, $43 for closing facilities, $18 for employee relocation, $19 for contractual obligations and $10 for other related expenses). We also provided $215 million for re-engineering customer support functions for telecommunications services (including, in millions, $55 for employee relocation, $25 for outplacement costs, $30 for legal contingencies and $105 for closing facilities, lease terminations and asset abandonments associated with centralizing support services). The remaining provisions consist of $23 million related to closing plants for manufacturing telecommunications network systems, and $33 million for employee relocation, outplacement services and legal liabilities related to restructuring operations that service the U.S. federal government.

In 1991 we recorded approximately $4.5 billion of business restructuring and other charges, reducing net income by $2,863 million ($2.21 per share). The charges covered estimated costs of changes in our computer operations, PBX operations and product distribution processes; consolidating operations in leased and owned buildings and recognizing costs of vacant space; eliminating a future subsidy to an Alaskan long distance company; writing down an investment; and other restructuring-related activities, merger-related expenses and other charges. We recorded these charges as $3,572 million in provisions for business restructuring; $501 million as selling, general and administrative expenses; $123 million as cost of products and systems; and the remainder as other costs and expenses, including other income–net. Charges included in other accounts in 1991 were primarily for expenses related to the restructuring activities, writing down impaired assets and merger-related expenses.

The remaining reserves for separation payments at January 1, 1993 were included in the cumulative effect of the change in accounting for postemployment benefits. We believe that the balance of reserves for all other business restructuring activities, $1,440 million at December 31, 1993, is adequate for the completion of those activities.

7. Other Income–Net

In June 1993 we sold our remaining 77% interest in UNIX System Laboratories, Inc. to Novell, Inc. (Novell) in exchange for approximately 3% of Novell common stock. Our gain on the sale was $217 million.

We sold our remaining interest in Compagnie Industriali Riunite S.p.A. in 1993 for a slight gain. We reduced the carrying value of that investment by $68 million in 1992 and by $218 million in 1991 because of a sustained decline in its market value.

In 1991 we had a $171 million gain from selling our 19% equity investment in Sun Microsystems, Inc.

8. Sale of Stock by Subsidiaries

In August 1993 AT&T Capital Corporation sold 5,750,000 shares of common stock in an initial public offering and approximately 850,000 shares of common stock in a management offering. That was about 14% of the shares outstanding, so our ownership is now about 86%. The shares were sold at $21.50 per share, yielding net proceeds of $115 million excluding $18 million of recourse loans attributable to the management offering. Because of these loans, we recorded a $9 million loss on the sale. When the loans are collected in seven years, we expect to report a net $6 million gain from this sale of stock.

In 1991 UNIX Systems Laboratories, Inc. sold about 20% of its stock to other companies to encourage their support for open computing standards. We had a $43 million gain on that sale. Proceeds from the sale were in cash and we did not provide for deferred taxes on the gain.

9. Income Taxes

This table shows the principal reasons for the difference between the effective income tax rate and the United States Federal statutory income tax rate:

Dollars in millions	**1993**	1992	1991
U.S. Federal statutory income tax rate	**35%**	34%	34%
Federal income tax at statutory rate	**$2,171**	$2,026	$300
Amortization of investment tax credits	**(92)**	(221)	(142)
State and local income taxes, net of federal income tax effect	**247**	230	63
Foreign rate differential	**45**	75	54
Taxes on repatriated and accumulated foreign income, net of tax credits	**(20)**	67	(12)
Research credits	**(47)**	(18)	(5)
Capital loss carry-forward	**—**	(13)	32
Effect of tax rate change on deferred tax assets	**(73)**	—	—
Other differences–net	**(1)**	5	71
Provision for income taxes	**$2,230**	$2,151	$361
Effective income tax rate	**36.0%**	36.1%	40.9%

The U.S. and foreign components of income before income taxes and the provision for income taxes are presented in this table:

Dollars in millions	1993	1992	1991
Income before income taxes			
United States	**$5,906**	$5,628	$ 373
Foreign	**298**	330	510
	$6,204	$5,958	$ 883
Provision for income taxes			
Current			
Federal	**$ 878**	$ 503	$ 820
State and local	**200**	124	192
Foreign	**169**	215	302
	1,247	842	1,314
Deferred			
Federal	**924**	1,387	(829)
State and local	**180**	225	(96)
Foreign	**(41)**	(85)	140
	1,063	1,527	(785)
Deferred investment tax credits–net*	**(80)**	(218)	(168)
Provision for income taxes	**$2,230**	$2,151	$ 361

*Net of amortization of $92 in 1993, $221 in 1992 and $142 in 1991.

Deferred tax liabilities are taxes we expect to pay in future periods. Similarly, deferred tax assets are taxes we expect to get refunded in future periods. Deferred taxes arise because of differences in the book and tax bases of certain assets and liabilities.

This table shows the December 31, 1993 amounts of deferred tax assets and liabilities, which include the effects of our January 1, 1993 accounting changes:

Dollars in millions	Assets	Liabilities
Property, plant and equipment	**$ —**	**$ 3,492**
Business restructuring charges	**666**	**—**
Employee, postretirement and postemployment benefits	**4,056**	**56**
Reserves and allowances	**1,053**	**—**
Unamortized investment tax credits	**119**	**—**
Other	**152**	**494**
Valuation allowance	**(201)**	**—**
Deferred income taxes	**$ 5,845**	**$ 4,042**

Prior year financial statements were not restated to reflect the new accounting standards. This table shows the principal sources of deferred taxes in prior years:

Dollars in millions	1992	1991
Property, plant and equipment	$ 929	$ 511
Business restructuring charges	218	(1,103)
Employee pensions and other benefits	234	(26)
Reserves and allowances	108	(208)
Other timing differences–net	38	41
Deferred income taxes	$ 1,527	$ (785)

10. Leases

As Lessor

We provide financing on sales of our products and those of other companies and lease our products to customers under sales-type leases. This table displays our net investment in direct financing and sales-type leases:

Dollars in millions at December 31	1993	1992
Minimum lease payments receivable	**$4,226**	$3,780
Estimated unguaranteed residual values	**543**	484
Unearned income	**(797)**	(736)
Allowance for credit losses	**(110)**	(91)
Net investment	**$3,862**	$3,437

This table shows the scheduled maturities of the $4,226 million minimum lease payments receivable on these leases at December 31, 1993:

1994	1995	1996	1997	1998	Later Years
$1,434	$1,080	$797	$489	$234	$192

We lease airplanes, energy-producing facilities and transportation equipment under leveraged leases having original terms ranging from 10 to 30 years, expiring in various years from 1994 through 2020. This table shows our net investment in leveraged leases:

Dollars in millions at December 31	1993	1992
Rentals receivable (net of principal and interest on non-recourse notes)	**$1,010**	$1,021
Estimated residual value of leased property	**782**	784
Unearned and deferred income	**(537)**	(626)
Allowance for credit losses	**(22)**	(19)
Investment in leveraged leases	**1,233**	1,160
Deferred taxes	**(994)**	(719)
Net investment	**$ 239**	$ 441

We lease equipment to others through operating leases, the majority of which are cancelable. This table shows our net investment in operating leases:

Dollars in millions at December 31	1993	1992
Machinery, electronic and other equipment	**$2,694**	$2,839
Less: Accumulated depreciation	**1,230**	1,364
Net investment	**$1,464**	$1,475

This table shows the $557 million of future minimum rentals receivable under noncancelable operating leases at December 31, 1993:

1994	1995	1996	1997	1998	Later Years
$251	$157	$83	$32	$11	$23

As Lessee

We lease land, buildings and equipment through contracts that expire in various years through 2025. Our rental expense under operating leases, in millions, was $1,041 in 1993, $1,121 in 1992 and $1,461 in 1991. The table below shows our future minimum lease payments due under noncancelable leases at December 31, 1993. Such payments total $3,004 million for operating leases. The net present value of such payments on capital leases was $163 million after deducting estimated executory costs of $1 million and imputed interest of $23 million.

	1994	1995	1996	1997	1998	Later Years
Operating leases	$650	$488	$328	$281	$225	$1,032
Capital leases	91	44	22	17	8	5
Minimum lease payments	$741	$532	$350	$298	$233	$1,037

11. Shareowners' Equity

Dollars in millions	Common Shares	Additional Paid-in Capital	Foreign Currency Translation Adjustments	Retained Earnings
At December 31, 1990	$1,275	$ 9,497	$ 50	$ 5,580
1991				
Net income	—	—	—	522
Dividends declared	—	—	—	(1,612)
Shares issued:				
Under employee plans	6	120	—	34
Under share-owner plans	11	381	—	—
In private placement	18	629	—	—
Shares repurchased	(1)	(3)	—	(20)
Translation adjustments	—	—	108	—
Other changes	—	—	—	95
At December 31, 1991	1,309	10,624	158	4,599
1992				
Net income	—	—	—	3,807
Dividends declared	—	—	—	(1,759)
Shares issued:				
Under employee plans	10	298	—	—
Under share-owner plans	10	402	—	—
For merger with Teradata	11	103	—	—
Teradata balance recorded	—	—	—	(178)
Shares repurchased	—	(2)	—	—
Translation adjustments	—	—	(93)	—
Other changes	—	—	—	29
At December 31, 1992	1,340	11,425	65	6,498
1993				
Net income	**—**	**—**	**—**	**(3,794)**
Dividends declared	**—**	**—**	**—**	**(1,780)**
Shares issued:				
Under employee plans	**4**	**157**	**—**	**—**
Under share-owner plans	**8**	**450**	**—**	**—**
Shares repurchased	**—**	**(4)**	**—**	**—**
Translation adjustments	**—**	**—**	**(97)**	**—**
Other changes	**—**	**—**	**—**	**(67)**
At December 31, 1993	**$1,352**	**$12,028**	**$ (32)**	**$ 857**

In 1992 we recorded the retained earnings of Teradata Corporation (Teradata) as of January 1, after making adjustments associated with the merger. In September 1991 NCR Corporation (NCR) issued 6.3 million shares of NCR common stock in connection with the merger with AT&T. The shares were converted into approximately 17.9 million shares of our common stock upon consummation of the merger.

In March 1990 we issued 13.4 million new shares of common stock in connection with the establishment of an ESOP feature for the non-management savings plan. The shares are being allocated to plan participants over ten years commencing in July 1990 as contributions are made to the plan.

We have 100 million authorized shares of preferred stock at $1 par value. No preferred stock is currently issued or outstanding.

12. Long-Term Debt Obligations

This table shows the outstanding long-term debt obligations in millions at December 31:

Interest Rates	Maturities	**1993**	1992
Debentures			
4⅜% to 4¾%	1996-1999	**$ 750**	$ 750
5⅛% to 7⅛%	2000-2001	**500**	1,673
8⅛% to 9%	2022-2031	**1,676**	2,576
Notes			
4¼% to 7¾%	1994-2004	**3,605**	2,515
7⅘% to 8¹⁹⁄₂₀%	1994-2006	**445**	740
9% to 12⅞%	1994-2020	**616**	1,036
Variable rate	1994-1999	**923**	191
		8,515	9,481
Long-term lease obligations		**163**	302
Other		**89**	148
Less: Unamortized discount–net		**43**	61
		8,724	9,870
Less: Amounts maturing within one year		**1,912**	1,266
Total long-term obligations		**$6,812**	$8,604

This table shows the maturities, at December 31, 1993, of the $8,515 million in debentures and notes:

1994	1995	1996	1997	1998	Later Years
$1,860	$1,245	$902	$198	$665	$3,645

A consortium of lenders provides revolving credit facilities of $6 billion to AT&T and $2 billion to AT&T Capital Corp. (AT&T Capital). These facilities are intended for general corporate purposes, which include support for AT&T's and AT&T Capital's commercial paper. They were unused at December 31, 1993.

13. Employee Benefit Plans

Pension Plans

We sponsor non-contributory defined benefit plans covering the majority of our employees. Benefits for management employees are principally based on career-average pay. Benefits for occupational employees are not directly pay-related.

Pension contributions are principally determined using the aggregate cost method and are primarily made to trust funds held for the sole benefit of plan participants. We compute pension cost using the projected unit credit method and assumed a long-term rate of return on plan assets of 9.0% in 1993, 9.0% in 1992 and 8.6% in

1991. Pension cost includes the following components:

Dollars in millions	1993	1992	1991
Service cost—benefits earned during the period	**$ 536**	$ 452	$ 303
Interest cost on projected benefit obligation	**2,294**	2,225	2,136
Amortization of unrecognized prior service costs	**251**	346	310
Credit for expected return on plan assets*	**(3,108)**	(2,973)	(2,728)
Amortization of transition asset	**(502)**	(502)	(502)
Charges for special pension options	**74**	11	108
Net pension cost (credit)	**$ (455)**	$ (441)	$ (373)

*The actual return on plan assets was $5,068 in 1993, $2,153 in 1992 and $6,980 in 1991.

This table shows the funded status of the defined benefit plans:

Dollars in millions at December 31	1993	1992
Actuarial present value of accumulated benefit obligation, including vested benefits of $28,119 and $24,818, respectively	**$30,943**	$27,316
Plan assets at fair value	**$41,481**	$38,767
Less: Actuarial present value of projected benefit obligation	**32,680**	28,719
Excess of assets over projected benefit obligation	**8,801**	10,048
Unrecognized prior service costs	**2,052**	2,200
Unrecognized transition asset	**(3,960)**	(4,463)
Unrecognized net gain	**(3,513)**	(4,613)
Net minimum liability of non-qualified plans	**(72)**	(45)
Prepaid pension costs	**$ 3,308**	$ 3,127

We used these rates and assumptions to calculate the projected benefit obligation:

At December 31	1993	1992
Weighted-average discount rate	**7.5%**	8.3%
Rate of increase in future compensation levels	**5.0%**	5.0%

The prepaid pension costs shown above are net of pension liabilities for plans where accumulated plan benefits exceed assets. Such liabilities are included in other liabilities in the consolidated balance sheets.

We are amortizing over approximately 15.9 years the unrecognized transition asset related to our 1986 adoption of SFAS No. 87, "Employers' Accounting for Pensions." We amortize prior service costs primarily on a straight-line basis over the average remaining service period of active employees. Our plan assets consist primarily of listed stocks (including $378 million and $451 million of AT&T common stock at December 31, 1993 and 1992, respectively), corporate and governmental debt, real estate investments, and cash and cash equivalents.

Savings Plans

We sponsor savings plans for the majority of our employees. The plans allow employees to contribute a portion of their pretax and/or after-tax income in accordance with specified guidelines. We match a percentage of the employee contributions up to certain limits. Our contributions in millions amounted to $347 in 1993, $331 in 1992 and $279 in 1991.

14. Postretirement Benefits

Our benefit plans for retirees include health care benefits, life insurance coverage and telephone concessions. This table shows the components of the net postretirement benefit cost:

Dollars in millions	1993
Service cost—benefits earned during the period	**$ 95**
Interest cost on accumulated postretirement benefit obligation	**868**
Credit for expected return on plan assets*	**(180)**
Amortization of unrecognized prior service costs	**29**
Charge for special options	**29**
Net postretirement benefit cost	**$ 841**

*The actual return on plan assets was $243.

We did not restate our 1991 and 1992 financial statements to reflect the change in accounting for retiree benefits. This table shows our actual postretirement benefit costs on a pay-as-you-go basis in those years:

Dollars in millions at December 31	1992	1991
Cost of health care benefits for retirees	$532	$532
Cost of life insurance benefits for retirees	3	26
Cost of telephone concessions and other benefits	39	35
Payments to regional Bell companies for predivestiture retirees	145	125
Postretirement benefit cost	$719	$718

We had approximately 142,200 retirees in 1993, 141,200 in 1992 and 138,500 in 1991.

Our plan assets consist primarily of listed stocks, corporate and governmental debt, cash and cash equivalents and life insurance contracts. This table shows the funded status of our postretirement benefit plans reconciled with the amounts recognized in the consolidated balance sheet:

Dollars in millions at December 31	1993
Accumulated postretirement benefit obligation	
Retirees	**$ 8,928**
Fully eligible active plan participants	**893**
Other active plan participants	**2,092**
Accumulated postretirement benefit obligation	**11,913**
Plan assets at fair value	**2,900**
Unfunded postretirement obligation	**9,013**
Unrecognized prior service costs	**283**
Unrecognized net loss	**569**
Accrued postretirement benefit obligation	**$ 8,161**

We made these assumptions in valuing our postretirement benefit obligation at December 31, 1993:

Weighted-average discount rate	7.5%
Expected long-term rate of return on plan assets	9.0%
Assumed rate of increase in the per capita cost of covered health care benefits	9.4%

We assumed that the growth in the per capita cost of covered health care benefits (the health care cost trend rate) would gradually decline after 1994 to 5.6% by the year 2021 and then remain level. This assumption greatly affects the amounts reported. To illustrate,

increasing the assumed trend rate by 1% in each year would raise our accumulated postretirement benefit obligation at December 31, 1993 by $758 million and our 1993 postretirement benefit costs by $64 million.

15. Stock Options

In our Long Term Incentive Program, we grant stock options, stock appreciation rights (SARs), either in tandem with stock options or free-standing, and other awards. On January 1 of each year, 0.6% of the outstanding shares of our common stock become available for grant. The exercise price of any stock option is equal to or greater than the stock price when the option is granted. When granted in tandem, exercise of an option or SAR cancels the other to the extent of such exercise. Option transactions are shown below:

Number of shares	**1993**	1992	1991
Balance at January 1	**25,588,351**	24,877,209	19,657,362
Options assumed in merger with Teradata	**—**	1,848,642	—
Options granted	**4,729,651**	4,948,371	8,312,922
Options and SARs exercised	**(3,994,569)**	(5,752,053)	(2,874,129)
Average price	**$27.62**	$20.44	$19.53
Options forfeited	**(162,996)**	(333,818)	(218,946)
At December 31:			
Options outstanding	**26,160,437**	25,588,351	24,877,209
Average price	**$36.78**	$32.58	$29.77
Options exercisable	**17,942,984**	17,832,355	17,713,781
Shares available for grant	**19,626,553**	16,592,924	13,852,914

During 1993 167,747 SARs were exercised and no SARs were granted. At December 31, 1993, 925,210 SARs remained unexercised and all of these were exercisable.

Before our mergers with NCR and Teradata, stock options were granted under the separate stock option plans of those companies. No new options can be granted under those plans.

16. Segment Information

Industry Segments

Our operations in the global information movement and management industry involve providing long distance telecommunications services, business information processing systems, and other systems, products and services that combine communications and computers. Our operations in the financial services and leasing industry involve direct financing and finance leasing programs for our products and the products of other companies, leasing products to customers under operating leases and being in the general-purpose credit card business. Miscellaneous other activities, including the distribution of computer equipment through retail outlets, in the aggregate, represent less than 10% of revenues, operating income and identifiable assets and are included in the information movement and management segment. Revenues between industry segments are not material.

Dollars in millions	**1993**	1992	1991
Revenues			
Information movement and management	**$64,652**	$63,010	$61,705
Financial services and leasing	**2,504**	1,894	1,384
	$67,156	$64,904	$63,089
Operating income			
Information movement and management	**$ 6,509**	$ 6,840	$ 2,008
Financial services and leasing	**339**	193	(34)
Corporate and non-operating	**(644)**	(1,075)	(1,091)
Income before income taxes	**$ 6,204**	$ 5,958	$ 883
Assets			
Information movement and management	**$43,515**	$41,987	$41,307
Financial services and leasing	**17,033**	14,003	9,809
Corporate assets	**934**	1,607	2,533
Eliminations	**(716)**	(409)	(294)
	$60,766	$57,188	$53,355
Depreciation and amortization			
Information movement and management	**$ 3,682**	$ 3,541	$ 3,852
Financial services and leasing	**431**	352	160
Capital expenditures			
Information movement and management	**$ 3,232**	$ 3,286	$ 3,372
Financial services and leasing	**457**	633	472
Total liabilities			
Financial services and leasing	**$15,329**	$12,250	$ 8,720

Geographic Segments

Transfers between geographic areas are on terms and conditions comparable with sales to external customers. The methods followed in developing the geographic area data require the use of estimation techniques and do not take into account the extent to which product development, manufacturing and marketing depend upon each other. Thus the information may not be indicative of results if the geographic areas were independent organizations.

Dollars in millions	**1993**	1992	1991
Revenues–external customers			
United States	**$61,580**	$59,234	$57,647
Other geographic areas	**5,576**	5,670	5,442
	$67,156	$64,904	$63,089
Transfers between geographic areas (eliminated in consolidation)			
United States	**$ 1,374**	$ 1,077	$ 870
Other geographic areas	**1,125**	911	884
	$ 2,499	$ 1,988	$ 1,754

Dollars in millions	1993	1992	1991
Operating income			
United States	**$ 7,095**	$ 7,081	$ 1,578
Other geographic areas	**(247)**	(48)	396
Corporate and non-operating	**(644)**	(1,075)	(1,091)
Income before income taxes	**$ 6,204**	$ 5,958	$ 883
Assets			
United States	**$54,738**	$51,735	$46,863
Other geographic areas	**6,901**	5,373	4,931
Corporate assets	**934**	1,607	2,533
Eliminations	**(1,807)**	(1,527)	(972)
	$60,766	$57,188	$53,355

Data on other geographic areas pertain to operations that are located outside of the U.S. Our revenues from all international activities, including those in the table, international telecommunications services and exports, provided 25.2% of consolidated revenues in 1993.

Business restructuring and other charges were taken primarily in the information movement and management segment and the U.S. geographic area. Corporate assets are principally cash and temporary cash investments.

17. Financial Instruments

We use various financial instruments in the normal course of our business. By their nature all such instruments involve risk, and our maximum potential loss may exceed the amount recognized in our balance sheet. As is customary for these types of instruments, we usually do not require collateral or other security from other parties to these instruments. However, because we control our exposure to credit risk through credit approvals, credit limits and monitoring procedures, we believe that our reserves for losses are adequate.

Commitments to Extend Credit

We participate in the general-purpose credit card business through AT&T Universal Card Services Corp., a wholly owned subsidiary. We purchase essentially all cardholder receivables under an agreement with the Universal Bank, a subsidiary of Synovus Financial Corporation, which issues the cards.

Letters of Credit

Letters of credit are purchased guarantees that ensure our performance or payment to third parties in accordance with specified terms and conditions.

Guarantees of Debt

From time to time, we guarantee the financing for product purchases by customers outside the U.S., and the debt of certain unconsolidated joint ventures.

Interest Rate Swap Agreements

We enter into interest rate swap agreements to manage our exposure to changes in interest rates. The agreements generally involve the exchange of fixed or floating interest payments without the exchange of the underlying principal amounts.

Foreign Exchange Contracts

We enter into foreign currency exchange contracts, including forward, option and swap contracts, to manage our exposure to changes in currency exchange rates.

Fair Values of Financial Instruments

Financial instrument	*Valuation method*
Universal Card finance receivables	Carrying amounts. These accrue interest at a prime-based rate.
All other finance receivables	Future cash flows discounted at market rates.
Debt excluding capital leases	Market quotes or based on rates available to us for debt with similar terms and maturities.
Commitments to extend credit	Receivables we would need to purchase if all Universal Card accounts were used up to their full credit limits.
Letters of credit	Fees paid to obtain the obligations.
Guarantees of debt	Costs to terminate agreements.
Interest rate swap agreements	Costs to terminate agreements.
Foreign exchange contracts	Market quotes.

The table below shows the carrying or contract/notional amounts and estimated fair values of material financial instruments used in the normal course of our business.

Dollars in millions	1993		1992	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
On balance sheet				
Finance receivables other than leases	**$10,320**	**$10,337**	$ 7,798	$ 7,803
Debt excluding capital leases	**17,553**	**17,883**	15,902	16,126
	Contract/ Notional Amount		Contract/ Notional Amount	
Off balance sheet*				
Commitments to extend credit	**$64,864**		$39,934	
Letters of credit	**680**		455	
Guarantees of debt	**455**		271	
Interest rate swap agreements	**3,685**		1,713	
Foreign exchange:				
Forward contracts	**783**		972	
Swap contracts	**361**		369	
Option contracts	**—**		35	

*The fair values of off-balance-sheet instruments are negligible.

18. Contingencies

In the normal course of business we are subject to proceedings, lawsuits and other claims, including proceedings under government laws and regulations related to environmental and other matters. Such matters are subject to many uncertainties, and outcomes are not predictable with assurance. Consequently, we are unable to ascertain the ultimate aggregate amount of monetary liability or financial impact with respect to these mat-

ters at December 31, 1993. While these matters could affect the operating results of any one quarter when resolved in future periods, we believe that after final disposition, any monetary liability or financial impact to us beyond that provided for at year-end would not be material to our annual consolidated financial statements.

19. AT&T Credit Holdings, Inc.

In connection with the March 31, 1993 legal restructuring of AT&T Capital Holdings, Inc. (formerly AT&T Capital Corporation), we issued a direct, full and unconditional guarantee of all the outstanding public debt of AT&T Credit Holdings, Inc. (formerly AT&T Credit Corporation).

AT&T Credit Holdings, Inc. holds the majority of AT&T's investment in AT&T Capital Corporation and the lease finance assets of the former AT&T Credit Corporation. The table below shows summarized consolidated financial information for AT&T Credit Holdings, Inc., which consolidates the accounts of AT&T Capital Corporation. Financial information for prior periods was restated for the legal restructuring. The summarized financial information includes transactions with AT&T that are eliminated in consolidation.

Dollars in millions	1993	1992
Total revenue	**$1,432**	$1,351
Interest expense	**284**	293
Operating and administrative expense	**384**	375
Income before cumulative effect of change in accounting	**70**	100
Cumulative effect of change in accounting (SFAS No. 109)	**22**	—
Net income	**48**	100
Finance receivables	**$6,220**	$5,565
Net investment in operating lease assets	**978**	1,099
Total assets	**7,886**	7,252
Total debt	**4,639**	4,633
Total liabilities	**6,867**	6,422
Minority interest	**251**	110
Total shareowner's equity	**768**	720

20. Quarterly Information (unaudited)

Quarters— Dollars in millions	First	Second	Third	Fourth
1993				
Total revenues	**$15,719**	**$16,316**	**$16,662**	**$18,459**
Gross margin	**6,202**	**6,547**	**6,581**	**7,257**
Income before cumulative effects of accounting changes	**936**	**1,005**	**1,051**	**982**
Net income (loss)	**(6,832)**	**1,005**	**1,051**	**982**
Per common share:				
Income before cumulative effects of accounting changes	**.69**	**.74**	**.78**	**.72**
Net income (loss)	**(5.07)**	**.74**	**.78**	**.72**
Dividends declared	**.33**	**.33**	**.33**	**.33**
Stock price*:				
High	**59 1/8**	**63 7/8**	**65**	**61 3/8**
Low	**50 1/8**	**53 3/4**	**57 3/8**	**52**
Quarter-end close	**56 3/4**	**63**	**58 7/8**	**52 1/2**

Quarters— Dollars in millions	First	Second	Third	Fourth
1992				
Total revenues	$15,375	$15,845	$16,180	$17,504
Gross margin	5,912	6,185	6,269	6,828
Net income	883	961	963	1,000
Per common share:				
Net income	.67	.72	.72	.75
Dividends declared	.33	.33	.33	.33
Stock price*:				
High	41 3/8	44 5/8	45 3/8	53 1/8
Low	36 5/8	40 1/8	42	40 5/8
Quarter-end close	40 3/4	43	43 5/8	51

* Stock prices obtained from the Composite Tape.

The number of weighted average shares outstanding increases as we issue new common shares for employee plans, shareowner plans and other purposes. For this reason, the sum of quarterly earnings per common share may not be the same as earnings per common share for the year, and the per share effects of unusual items in a quarter may differ from the per share effects of those same items for the year.

In the second quarter of 1993, we recorded $278 million in provisions for business restructuring activities. The effect of these provisions was offset by the $217 million gain from selling UNIX System Laboratories, Inc. and other miscellaneous credits. In the fourth quarter of 1993, we recorded a $190 million provision for business restructuring at AT&T Global Information Solutions, which reduced net income by $119 million ($0.09 per share).

As a result of adopting SFAS No. 112, data for the first three quarters of 1993 were restated. The following table shows the net effects of this accounting change, which represent the differences between the amounts shown and the amounts originally reported:

Quarters—Dollars in millions	First	Second	Third
Gross margin	$ (39)	$(39)	$(42)
Income before cumulative effects of accounting changes	(60)	(39)	(22)
Cumulative effect of accounting change	(1,128)	—	—
Net income (loss)	(1,188)	(39)	(22)
Per common share:			
Income before cumulative effects of accounting changes	(.05)	(.03)	(.02)
Cumulative effect of accounting change	(.83)	—	—
Net income (loss)	(.88)	(.03)	(.02)

BOARD OF DIRECTORS

Robert E. Allen, 58
Chairman of the Board and Chief Executive Officer of AT&T since 1988. Director since 1984. 6,8

M. Kathryn Eickhoff, 54
President of Eickhoff Economics, Inc., a business consulting firm. Elected to Board in 1987. 3,5

Walter Y. Elisha, 61
Chairman and Chief Executive Officer of Springs Industries, Inc., a textile manufacturing firm. Director since 1987. 2,4,7

Philip M. Hawley, 68
Retired Chairman and Chief Executive Officer of Carter Hawley Hale Stores, Inc., retail department stores. Director since 1982. 2,3,4

Carla A. Hills, 59
Chairman and Chief Executive Officer of Hills & Company consulting firm and former U.S. Trade Representative. Elected to Board in 1993. 1,5

Belton K. Johnson, 64
Chairman of Belton K. Johnson Interests. Director since 1974. 3,5,6,8

Drew Lewis, 62
Chairman and Chief Executive Officer of Union Pacific Corp., a transportation, natural resources and environmental services company. Elected to Board in 1989. 1,2,5

Donald F. McHenry, 57
President of IRC Group, international relations consultants; educator and former U.S. Ambassador to the United Nations. Director since 1986. 3,7

Victor A. Pelson, 56
Chairman of AT&T Global Operations Team and Executive Vice President of AT&T. Elected to Board in 1993.

Donald S. Perkins, 66
Retired Chairman and Chief Executive Officer of Jewel Companies, Inc., a diversified retailer. Director since 1979. 1,2,6,7,8

Henry B. Schacht, 59
Chairman and Chief Executive Officer of Cummins Engine Company, Inc., manufacturer of diesel engines. Elected to Board in 1981. 1,5

Michael I. Sovern, 62
President Emeritus and Chancellor Kent Professor of Law at Columbia University. Director since 1984. 1,4

Franklin A. Thomas, 59
President of The Ford Foundation. Elected to Board in 1988. 1,2,5

Joseph D. Williams, 67
Retired Chairman and Chief Executive Officer of Warner-Lambert Co., a pharmaceutical, health care and consumer products company. Director since 1984. 4,6,7

Thomas H. Wyman, 64
Chairman of S. G. Warburg & Co. Inc., investment bankers. Director since 1981. 2,4,7

1. Audit Committee 2. Committee on Directors 3. Committee on Employee Benefits 4. Compensation Committee 5. Corporate Public Policy Committee 6. Executive Committee 7. Finance Committee 8. Proxy Committee

Our thanks and best wishes go to three people who left our Board in 1993. Gil Williamson retired as CEO of NCR. Lou Gerstner became chairman and CEO of IBM. Randy Tobias was elected chairman and CEO of Eli Lilly and Co. We welcome new Board members Ambassador Carla Hills and AT&T's Vic Pelson. We expect that Craig O. McCaw, chairman and chief executive officer of McCaw Cellular, will join our Board when the merger of our companies is completed in 1994.

MANAGEMENT EXECUTIVE COMMITTEE

Robert E. Allen, 58
Chairman of the Board and Chief Executive Officer since 1988. In 36-year AT&T career, has been chairman of Chesapeake and Potomac Telephone Companies, AT&T chief financial officer, chairman and CEO of AT&T Information Systems, and president and chief operating officer of AT&T.

Richard S. Bodman, 55
Senior Vice President of Corporate Strategy and Development since 1990. Previously president of Washington National Investment Corporation and CEO of Comsat General Corporation. Also held positions at E.I. du Pont de Nemours & Company, in the federal government and at Touche Ross & Company.

Harold W. Burlingame, 53
Senior Vice President of Human Resources since 1987. During 32-year AT&T career, has been vice president of public relations for AT&T Information Systems and senior vice president of public relations for the corporation.

Robert M. Kavner*, 50
Executive Vice President and Chief Executive Officer of Multimedia Products and Services since 1993. Headed AT&T's Communications Products and Data Systems Groups. Joined AT&T as chief financial officer in 1984 after 18 years with Coopers & Lybrand.

Marilyn Laurie, 54
Senior Vice President of Public Relations and Employee Information since 1987. Chairman of the AT&T Foundation. Headed public relations at AT&T Bell Laboratories and AT&T Communications. A nationally recognized environmentalist, she joined AT&T in 1971.

Alex J. Mandl*, 50
Executive Vice President and Chief Executive Officer of Communications Services since 1993. Joined AT&T in 1991 as chief financial officer. Formerly chairman and CEO of Sea-Land Service, Inc. Held senior positions at CSX Corporation and Boise Cascade Corporation.

William B. Marx, Jr.*, 54
Executive Vice President and Chief Executive Officer of Network Systems since 1989. Responsible for AT&T's worldwide purchasing and global manufacturing planning. Joined AT&T in 1961. Held engineering, sales and marketing positions at the former Western Electric Company. Headed AT&T Computer Systems from 1986 to 1987.

John S. Mayo, 63
President of AT&T Bell Laboratories since 1991. Joined AT&T in 1955. Headed product development at AT&T Network Systems and was senior vice president for network systems and network services at Bell Labs. Recipient of the National Medal of Technology for role in providing the technological foundation for Information Age communications.

Richard W. Miller*, 53
Executive Vice President and Chief Financial Officer since 1993. Formerly chairman and CEO of Wang Laboratories, Inc., senior vice president and general manager for consumer electronics at General Electric Company and chief financial officer for RCA.

Victor A. Pelson*, 56
Executive Vice President and Chairman of the Global Operations Team since 1993. Responsible for the effectiveness of AT&T's operations worldwide. Joined AT&T in 1959 as an engineer. Named head of Communications Services Group in 1989. Has held executive positions in virtually every part of the company.

Jerre L. Stead*, 50
Executive Vice President and Chief Executive Officer of AT&T Global Information Solutions since 1993. Joined AT&T in 1991 as president of Global Business Communications Systems. Formerly chairman and CEO of Square D Company, and held various management positions at Honeywell, Inc.

Sam R. Willcoxon, 62
Group Executive of AT&T and President of Telephone Pioneers of America since 1993. Joined AT&T as an engineer in 1952. Served as executive vice president of AT&T Communications and Pacific Telephone and Telegraph Co.

John D. Zeglis, 46
Senior Vice President–General Counsel and Government Affairs since 1986 and 1989, respectively. Joined AT&T in 1984. Formerly a partner at the law firm of Sidley & Austin.

*Also a member of the Global Operations Team.

The Management Executive Committee leads the development and implementation of AT&T's mission, values and strategic intent, while the Global Operations Team is responsible for the effectiveness of AT&T's operations worldwide.

Roger F. Davis, 50
Vice President and Controller

S. Lawrence Prendergast, 52
Vice President and Treasurer

Robert E. Scannell, 54
Vice President–Law and Secretary

GENERAL INFORMATION

GENERAL QUESTIONS

General questions or comments about AT&T may be addressed to the office of Vice President–Law and Secretary at:

AT&T Corporate Headquarters
32 Avenue of the Americas
Room 2420E
New York, NY 10013-2412

FORM 10-K

Form 10-K (AT&T's annual report to the Securities and Exchange Commission) is available without charge from AT&T Shareowner Relations at the corporate headquarters address above.

OTHER REPORTS

AT&T Capital Corporation's annual report and Form 10-K are available without charge by calling 1 800 235-4288, or writing:

AT&T Capital Corporation
Corporate Communications
44 Whippany Road
Morristown, NJ 07962-1983

Report on Corporate Citizenship
AT&T Foundation
Department AR
P.O. Box 45284
Jacksonville, FL 32232-5284

AT&T Environment and Safety Report
Department AR
131 Morristown Road
Room 1336
Basking Ridge, NJ 07920

HELPFUL INFORMATION FOR INVESTORS

SHAREOWNER SERVICES

First Chicago Trust, our shareowner services and transfer agent, will be happy to answer questions about your account and help you with transactions. You may call them toll-free at: **1 800 348-8288.**

Persons using a telecommunications device for the deaf (TDD) or a teletypewriter (TTY) may call: **1 800 822-2794.**

From outside the United States, call us collect at: **201 324-0293.**

Our mailing address is:
AT&T
c/o First Chicago Trust Co. of NY
P.O. Box 2575
Jersey City, NJ 07303-2575

The First Chicago Trust address to which banks and brokers may deliver certificates for transfer is 14 Wall Street in New York City.

DIVIDEND REINVESTMENT

The Dividend Reinvestment and Stock Purchase Plan provides owners of common stock a convenient way to purchase additional shares. If interested, please call or write First Chicago Trust for a prospectus and enrollment form.

STREET-NAME ACCOUNTS

Shareowners whose stock is held by banks or brokerage firms and who wish to receive AT&T quarterly reports directly from the company should contact First Chicago Trust to be placed on the mailing list.

INVESTOR RELATIONS

Security analysts and other members of the professional financial community are invited to contact AT&T Corporate Investor Relations with questions. Call **1 800 972-0784.**

STOCK DATA

AT&T is listed on the New York Stock Exchange (ticker symbol "T"). AT&T also is listed on the Boston, Midwest, Pacific and Philadelphia stock exchanges in the U.S., and on stock exchanges in Brussels, London, Paris, Geneva and Tokyo.

Shareowners of record (as of December 31, 1993): 2,344,160

1994 ANNUAL MEETING

The 109th Annual Shareowners Meeting will be held 9:30 a.m., Wednesday, April 20, 1994, at the Georgia World Congress Center in Atlanta.

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AT&T employees on the back cover, from top left: Maxine Isgitt, William Harwell, H. D. Waldron, Rachel Mosqueda, Dave Nguyen, Daisy Efferson, Shirley Anderson, Gregg Trusty, Mike Cuno, Shepard Fields, Catherine Adams, Tena Kern.

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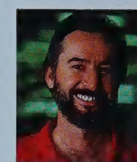
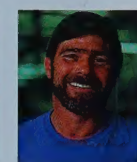
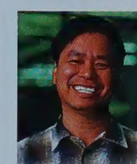
Our Common Bond

We commit to these values to guide our decisions and behavior




Respect for Individuals: We treat each other with respect and dignity, valuing individual and cultural differences. We communicate frequently and with candor, listening to each other regardless of level or position. Recognizing that exceptional quality begins with people, we give individuals the authority to use their capabilities to the fullest to satisfy their customers. Our environment supports personal growth and continuous learning for all AT&T people. • **Dedication to Helping Customers:** We truly care for each customer. We build enduring relationships by understanding and anticipating our customers' needs and by serving them better each time than the time before. AT&T customers can count on us to consistently deliver superior products and services that help them achieve their personal or business goals. • **Highest Standards of Integrity:** We are honest and ethical in all our business dealings, starting with how we treat each other. We keep our promises and admit our mistakes. Our personal conduct ensures that AT&T's name is always worthy of trust. • **Innovation:** We believe innovation is the engine that will keep us vital and growing. Our culture embraces creativity, seeks different perspectives and risks pursuing new opportunities. We create and rapidly convert technology into products and services, constantly searching for new ways to make technology more useful to customers. • **Teamwork:** We encourage and reward both individual and team achievements. We freely join with colleagues across organizational boundaries to advance the interests of customers and shareowners. Our team spirit extends to being responsible and caring partners in the communities where we live and work. • **By living these values, AT&T aspires to set a standard of excellence worldwide that will reward our shareowners, our customers, and all AT&T people.**